PROFILE TECHNOLOGIES INC
Form 10-Q
November 06, 2008

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

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number: 000-29196

PROFILE TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	91-1418002
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 Park Avenue, Suite 201 Manhasset, New York	11030
(Address of principal executive offices)	(Zip Code)

(516) 365-1909
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]   Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)
Smaller reporting company |X|

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 15,640,760 shares of Common Stock as of November 1, 2008.

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PROFILE TECHNOLOGIES, INC.
FORM 10-Q
For the Quarterly Period Ended September 30, 2008

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Balance Sheets (Unaudited).. 3

Statements of Operations (Unaudited) 4

Statements of Stockholders' Deficit (Unaudited).................. 5

Statements of Cash Flows (Unaudited)............................. 6

Notes to Financial Statements (Unaudited)........................ 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations............ 16

Item 4T Controls and Procedures.................................. 21

PART II OTHER INFORMATION

Item 1. Legal Proceedings... 22

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 22

Item 3. Defaults Upon Senior Securities.......................... 23

Item 4. Submission of Matters to a Vote of Security Holders....... 23

Item 5. Other Information... 23

Item 6. Exhibits.. 23

Signatures

Certifications

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

PROFILE TECHNOLOGIES, INC.
Balance Sheets
(Unaudited)

Assets

Current assets:
Cash and cash equivalents
Accounts receivable
Prepaid expenses and other current assets

Total current assets

Equipment, net of accumulated depreciation of $7,447 and $12,791
Other assets

Total assets

Liabilities and Stockholders' Deficit

Current liabilities:
Accounts payable
Notes payable to stockholders
Current portion of convertible debt, net of unamortized discount of $6,019 and $7,488
Deferred wages
Accrued professional fees
Accrued interest
Other accrued expenses

Total current liabilities

Long-term convertible debt, net of unamortized discount of $30,134 and $32,030

Stockholders' deficit:
Common stock, $0.001 par value: 35,000,000 shares authorized,
15,639,145 and 14,383,705 shares issued and outstanding
Common stock issuable; 1,615 and 5,555 shares
Additional paid-in capital
Accumulated deficit

Total stockholders' deficit

Commitments, contingencies and subsequent events

Total liabilities and stockholders' deficit

See accompanying notes to financial statements.

PROFILE TECHNOLOGIES, INC.
Statements of Operations
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007
Revenue	$ 17,183	$ --
Cost of revenue	(11,357)	--
Gross margin	5,826	--
Operating expenses:		
Research and development	82,433	87,166
Selling	22,450	--
General and administrative	205,308	187,472
Total operating expenses	310,191	274,638
Loss from operations	(304,365)	(274,638
Loss on disposal of fixed assets	(7,567)	--
Interest expense	(4,994)	(17,318
Interest income	2,482	3,025
Net loss	$ (314,444)	$ (288,931
Basic and diluted net loss per share	$ (0.02)	$ (0.02
Weighted average shares outstanding used to calculate basic and diluted net loss per share	15,131,683	13,161,796

See accompanying notes to financial statements.

4

PROFILE TECHNOLOGIES, INC.
Statements of Stockholders' Deficit

For the Three Months Ended September 30, 2008 and Year Ended June
(Unaudited)

	Common Stock	
	Shares	Amount
Balance at June 30, 2007	12,798,706	$ 12,799
Issuance of common stock warrants and options for services to consultants	--	--
Issuance of common stock warrants and options for services to employees and board of directors	--	--
Issuance of common stock related to the 2007 Offering	1,434,999	1,435
Common stock issuance costs related to the 2007 Offering	--	--
Issuance of common stock upon conversion of convertible debt to equity	30,000	30
Exercise of stock options	50,000	50
Exercise of warrants	70,000	70
Net loss	--	--
Balance at June 30, 2008	14,383,705	$ 14,384
Issuance of common stock previously reported as "issuable"	5,555	6
Issuance of common stock for services to consultants	--	--
Stock compensation amortization expense	--	--
Issuance of common stock related to the 2007 Offering	1,109,885	1,109
Common stock issuance costs related to the 2007 Offering	--	--
Issuance of common stock upon conversion of convertible debt to equity	100,000	100
Exercise of warrants	40,000	40
Net loss	--	--
Balance at September 30, 2008	15,639,145	$ 15,639

PROFILE TECHNOLOGIES, INC.
Statements of Stockholders' Deficit (Continued)
For the Three Months Ended September 30, 2008 and Year Ended June 30, 2008
(Unaudited)

	Additional Paid-in Capital	Accumulated Deficit
Balance at June 30, 2007	$ 13,599,061	$(14,661,970
Issuance of common stock warrants and options		

for services to consultants	83,600	--
Issuance of common stock warrants and options		
for services to employees and board of directors	525,876	--
Issuance of common stock related to the 2007 Offering	1,295,060	--
Common stock issuance costs related to the 2007 Offering	(129,650)	--
Issuance of common stock upon conversion		
of convertible debt to equity	14,970	--
Exercise of stock options	27,450	--
Exercise of warrants	50,430	--
Net loss	--	(1,744,228
Balance at June 30, 2008	$ 15,466,797	$(16,406,198
Issuance of common stock previously reported as "issuable"	--	--
Issuance of common stock for services to consultants	2,118	--
Stock compensation amortization expense	5,563	--
Issuance of common stock related to the 2007 Offering	997,794	--
Common stock issuance costs related to the 2007 Offering	(99,890)	--
Issuance of common stock upon conversion		
of convertible debt to equity	49,900	--
Exercise of warrants	27,960	--
Net loss	--	(314,444
Balance at September 30, 2008	$ 16,450,242	$(16,720,642

See accompanying notes to financial statements.

PROFILE TECHNOLOGIES, INC.
Statements of Cash Flows
(Unaudited)

Cash flows from operating activities:
- Net loss
- Adjustments to reconcile net loss to net cash used in operating activities:
  - Depreciation and amortization
  - Loss on disposal of fixed assets
  - Accreted discount on convertible debt
  - Amortization of convertible debt discount included in interest expense
  - Amortization of debt issuance costs
  - Equity issued for services to consultants
  - Equity issued for services to employees and board of directors
  - Changes in operating assets and liabilities:
    - Accounts receivable
    - Prepaid expenses and other current assets
    - Accounts payable

Deferred wages
Accrued professional fees
Accrued interest
Other accrued expenses

Net cash used in operating activities

Cash flows from investing activities:
Purchase of fixed assets

Net cash used in investing activities

Cash flows from financing activities:
Common stock issuance costs
Proceeds from issuance of common stock
Proceeds from exercise of warrants

Net cash provided by financing activities

Increase in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

Supplemental disclosure of cash flow information:
Cash paid for interest
Convertible debt converted into 100,000 and 30,000 shares of common stock during the three months ended September 30, 2008 and 2007

See accompanying notes to financial statements.

6

PROFILE TECHNOLOGIES, INC
Notes to Financial Statements (Unaudited)
September 30, 2008

Note 1: Description of Business and Going Concern Uncertainties

Profile Technologies, Inc. (the "Company"), was incorporated in 1986 and commenced operations in fiscal year 1988. The Company is in the business of providing pipeline inspection services to locate corrosion and other anomalies that require assessment to verify pipeline integrity. The Company has developed a patented, non-destructive and non-invasive, high speed scanning process that uses electromagnetic waves to remotely inspect buried and aboveground, cased and insulated pipelines for corrosion and other anomalies. The Company's inspection services are available to owners and operators of natural gas and oil pipelines, power plants and refineries, utilities, and other facilities which have cased or insulated pipe. The Company is actively marketing to this sector. In conjunction with providing inspection services, the Company continues research and development of the application of its patented technologies to inspect pipelines for internal corrosion and anomalies as well as for those pipelines that are directly buried.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred cumulative losses of $16,720,642 through September 30, 2008, and had negative working capital of $261,597 as of September 30, 2008. The Company faces all of the risks common to companies that are actively marketing to customers utilizing a relatively new technology, including under capitalization and uncertainty of funding sources, high expenditure levels, uncertain revenue streams, and difficulties managing growth. Additionally, the Company has expended a significant amount of cash in developing its technology and patented processes. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management recognizes that in order to meet the Company's capital requirements, and continue to operate, additional financing, including seeking industry-partner investment through joint ventures or other possible arrangements, will be necessary. The Company is evaluating alternative sources of financing to improve its cash position and is undertaking efforts to raise capital. If the Company is unable to raise additional capital or secure revenue contracts and generate positive cash flow, it is unlikely that the Company will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2: Presentation of Interim Information

The accompanying unaudited interim financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management of Profile Technologies, Inc., include all adjustments (of a normal recurring nature) considered necessary to present fairly the financial position as of September 30, 2008 and December 31, 2007, the results of operations for the three months ended September 30, 2008 and 2007 and cash flows for the three months ended September 30, 2008 and 2007. These results have been determined on the basis of generally accepted accounting principles and practices in the United States and applied consistently with those used in the preparation of the Company's 2008 Annual Report on Form 10-KSB. The preparation of financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. On an on-going basis, the Company evaluates its estimates, including contract revenue recognition and impairment of long-lived assets. Actual results and outcomes may differ materially from these estimates and assumptions.

Certain information and footnote disclosures normally included in the annual financial statements presented in accordance with generally accepted accounting principles in the United States have been condensed or omitted. It is suggested that the accompanying unaudited interim financial statements be read in conjunction with the financial statements and notes thereto incorporated by reference in the Company's 2008 Annual Report on Form 10-KSB.

Note 3: Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. On occasion, the Company has amounts deposited with financial institutions in excess of federally insured limits.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by

regularly evaluating individual customer receivables and considering a customer's financial condition and credit history and economic conditions. To date, the Company has not deemed it necessary to record an allowance for doubtful accounts.

Concentration of Credit Risk and Fair Value of Financial Instruments

The Company extends credit to customers based on an evaluation of their financial condition. The Company does not require any collateral.

Revenue for the three months ended September 30, 2008 consisted of pipeline inspections performed for one customer. The Company cannot be assured that additional revenue generating contracts will be secured in the future.

The Company has the following financial instruments: cash, accounts payable, notes payable to stockholders, and convertible debt. The carrying value of these instruments, other than the convertible debt, approximates fair value based on their liquidity. The fair value of the convertible debt was determined as the excess of the proceeds over the fair value of the warrants.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Financing Fees

The Company records costs incurred related to debt financings as deferred financing fees and amortizes, on a straight-line basis, the costs incurred over the life of the related debt. The amortization is recognized as interest in the financial statements. Upon conversion into equity or extinguishment of the related debt, the Company recognizes any unamortized portion of the deferred financing fees as interest expense.

Deferred Contract Costs

The Company defers costs that are incurred related to future contracts only if the costs can be directly associated with a specific anticipated contract and if their recoverability from that contract is probable. The Company evaluates evidence of recoverability by reviewing signed contracts, written communication, approved proposals and historical customer relationships in determining the probability of obtaining a revenue generating contract. If there is uncertainty surrounding the attainment of a contract, all expenses incurred related to the contract are expensed as incurred. Upon execution of an anticipated contract, deferred contract costs are expensed as cost of revenue using the percentage of completion method of accounting. See "Contract Revenue Recognition" below.

Selling Expenses

Selling expense is primarily comprised of salary expense for employees who spend time meeting with prospective customers, costs that are incurred by the Company to provide field demonstrations to prospective customers, and costs incurred to attend conferences and trade shows.

Contract Revenue Recognition

The Company recognizes revenue from service contracts using the percentage of completion method of accounting. Contract revenues earned are measured using

either the percentage of contract costs incurred to date to total estimated contract costs or, when the contract is based on measurable units of completion, revenue is based on the completion of such units. This method is used because management considers total cost or measurable units of completion to be the best available measure of progress on contracts. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used may change in the near term.

Anticipated losses on contracts, if any, are charged to earnings as soon as such losses can be estimated. Changes in estimated profits on contracts are recognized during the period in which the change in estimate is known.

Cost of revenue includes contract costs incurred to date as well as any idle time incurred by personnel scheduled to work on customer contracts.

The Company records revenue from claims and change orders upon customer approval of revisions to the contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. Service contracts generally extend no more than six months.

Research and Development

Research and development costs are expensed when incurred. During the three months ended September 30, 2008 and 2007, the Company incurred $82,433 and $87,166 on research and development activities.

Equipment

Equipment is stated at cost and is depreciated using the straight-line method over estimated useful lives of two to five years. Contract related assets are used for inspecting pipelines for corrosion. Contract related assets are depreciated based on the number of pipelines that the Company anticipates inspecting over the estimated useful life of the asset, not to exceed three years.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews long-lived assets, such as equipment and intangibles, for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Valuation of Warrants and Options

The Company estimates the value of warrants and option grants using a Black-Scholes pricing model based on management assumptions regarding the warrant and option lives, expected volatility, and risk free interest rates.

Vendor Concentration

Consultant Scientist Fees

The Company relies on the expertise of two consultant scientists to facilitate the development and testing of the Company's hardware and software. These scientists are also instrumental in compiling and interpreting the data captured during the use of the hardware and software. The loss of the specialized knowledge provided by the scientists could have an adverse effect on the ability of the Company to successfully market its hardware and software. During the three months ended September 30, 2008 and 2007, the Company incurred cash fees payable to the scientists of $52,043 and $71,460, which are included in research and development expense.

As of September 30, 2008, the Company owed the consultant scientists a total of $88,739, which is included in accounts payable at September 30, 2008.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1 (FSP FAS 157-1), which excludes SFAS No. 13, "Accounting for Leases" and certain other accounting pronouncements that address fair value measurements under SFAS 13, from the scope of SFAS 157. In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), which provides a one-year delayed application of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in

the financial statements on a recurring basis (at least annually). The Company is required to adopt SFAS 157 as amended by FSP FAS 157-1 and FSP FAS 157-2 on July 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of SFAS No. 157 to have a material effect on the Company's financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 is effective immediately and will apply to the Company upon adoption of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115" (SFAS 159). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of

certain related assets and liabilities without having to apply more complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets or financial liabilities; therefore, this statement is did not have a material impact on the Company's financial statements.

In June 2008, the FASB issued Staff Position EITF 03-06-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-06-1). FSP EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, "Earnings per Share". EITF 03-06-1 did not have any impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51" (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent's ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company must adopt SFAS 160 on July 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of SFAS No. 160 to have a material effect on the financial statements.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" (SFAS 141R), which establishes principles and requirements for the reporting entity in a business combination, including recognition and measurement in the financial statements of the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company must adopt SFAS 141R on July 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of SFAS 141R to have a material effect on the financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities--an Amendment of FASB Statement No. 133" (SFAS 161), which requires enhanced disclosures about derivative and hedging activities. This statement is effective for financial statements issued for periods beginning after November 15, 2008. Early adoption is permitted. The Company must provide these new disclosures no later than its third quarter of fiscal 2009. The Company does not expect the application of SFAS 161 to have a material effect on the financial statements.

Note 4: Stock Based Compensation, Stock Options and Warrants

On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R Share-Based Payment ("SFAS 123R"). Prior to January 1, 2006, the Company accounted for stock-based awards under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to

Employees ("APB 25"), and related Interpretations, as permitted by SFAS 123. In accordance with APB 25, no compensation expense was required to be recognized for stock options granted that had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant.

The Company adopted SFAS 123R using the modified-prospective application method, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the requisite service period. The Company grants stock options that are either fully vested upon grant or have a four-year vesting period (defined by SFAS 123R as the requisite service period), and no performance or service conditions, other than continued employment. Stock compensation cost related to options that are fully vested upon grant is recognized immediately. Stock compensation cost related to options that have a vesting period is amortized ratably over the requisite service period.

The fair value of stock options is based on the price of a share of the Company's common stock on the date of grant. In determining fair value of stock options, the Company uses the Black-Scholes option pricing model that employs the following key weighted average assumptions:

	Three months ended September 30,	
	2008	2007
Risk-free interest rate	N/A *	4.23%
Expected Volatility	N/A *	80.78%
Expected dividend yield	N/A *	0%
Expected life	N/A *	5.0 years
Weighted average Black-Scholes value of options granted	N/A *	$0.78

* Note: There were no stock options granted during the three months ended September 30, 2008.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a bond with a similar term. The Company does not anticipate declaring dividends in the foreseeable future. Volatility is calculated based on the historical weekly closing stock prices for the same period as the expected life of the option. As permitted by SAB 107, the Company uses the "simplified" method for determining the expected term of its "plain vanilla" stock options. SFAS 123R also requires that the Company recognize compensation expense for only the portion of stock options that are expected to vest. Therefore, the Company applies an estimated forfeiture rate that is derived from historical employee termination data and adjusted for expected future employee turnover rates. To date, the Company has not experienced any forfeitures. If the actual number of forfeitures differs from those estimated by the Company, additional adjustments to compensation expense may be required in future periods. The Company's stock price volatility, option lives and expected forfeiture rates involve management's best estimates at the time of such determination, all of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

The following table sets forth the share-based compensation cost resulting from stock option grants that was recorded in the Company's Statements of Operations for the three months ended September 30, 2008 and 2007:

	Three months ended September 30,	
	2008	2007
General and administrative	$ --	$15,000
Research and development	5,563	2,220
Total	$ 5,563	$17,220

1999 Stock Option Plan

During 1999, the Company adopted a stock option plan (the "1999 Plan"). The 1999 Plan provides for both incentive and nonqualified stock options to be granted to employees, officers, directors, and consultants. The 1999 Plan originally provided for the granting of options to purchase a maximum of 500,000 shares of common stock with expiration dates of a maximum of five years from the date of grant. In November 2006, the Board of Directors amended, and the

Company's stockholders approved, an increase in the maximum number of shares of common stock available for grant to 3,500,000 and an increase in the period of time for which stock options may be exercisable to ten years from the date of grant.

Since the inception of the 1999 Plan, and prior to the amendment approved in November 2006, the Company made various stock option grants that had expiration dates exceeding five years from the date of grant. These stock option grants were deemed to be granted outside of the 1999 Plan.

A summary of the Company's stock option activity for the three months ended September 30, 2008 and the year ended June 30, 2008 follows:

	Number of Options (1)	Weighted Average Exercise Price	W Re Co
Outstanding at June 30, 2007	3,180,000	$ 1.14	
Grants	665,000	1.23	
Exercises	(50,000)	0.55	
Expirations	(40,000)	6.50	
Outstanding at June 30, 2008 and September 30, 2008	3,755,000	$ 1.11	6.

Exercisable at September 30, 2008	3,667,500	$ 1.11	6.
	==========		
Available for grant at September 30, 2008 (2)	2,030,000		
	==========		

(1) Consists of stock options outstanding under the 1999 Plan and stock options outstanding that were granted outside of the 1999 Plan.

(2) Shares available for future stock option grants to employees, officers, directors and consultants of the Company under the 1999 Plan.

The aggregate intrinsic value of the table above represents the total pretax intrinsic value for all "in-the-money" options (i.e., the difference between the Company's closing stock price on the last trading day of its fourth quarter of 2008 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on June 30, 2008. This amount changes based on the fair market value of the Company's stock.

As of September 30, 2008, the Company had $66,813 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 3.02 years.

The following table summarizes information about stock options outstanding at September 30, 2008:

	Options outstanding			Optio	
Exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	W r co li
$0.50	20,000	0.62	$ 0.50	20,000	
0.70	110,000	0.21	0.70	110,000	
0.86	435,000	8.12	0.86	435,000	
0.95	140,000	8.12	0.95	140,000	
1.05	150,000	3.16	1.05	112,500	
1.12	285,000	5.71	1.12	285,000	
1.13	50,000	4.42	1.13	--	
1.16	1,850,000	5.70	1.16	1,850,000	
1.20	350,000	7.56	1.20	350,000	
1.21	150,000	7.20	1.21	150,000	
1.32	200,000	9.13	1.32	200,000	
1.50	15,000	8.95	1.50	15,000	
$0.50 - 1.50	3,755,000	6.20	$ 1.11	3,667,500	

Warrants

The Company has granted warrants to compensate key employees, consultants, and board members for past and future services and as incentives during placements of stock and convertible debt.

A summary of the Company's warrant-related activity for the three months ended September 30, 2008 and the year ended June 30, 2008 follows:

	Number of warrants outstanding	Weighted average exercise price
Outstanding at June 30, 2007	8,887,456	$ 0.94
Expirations	(666,428)	3.24
Exercises	(70,000)	0.72
Oustanding at June 30, 2008	8,151,028	$ 0.75
Exercises	(40,000)	0.70
Outstanding at September 30, 2008	8,111,028	$ 0.75

The following table summarizes information about warrants outstanding, all of which are exercisable at September 30, 2008:

Exercise prices	Number of warrants outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.60	439,600	2.87	$ 0.60
0.75	7,100,000	2.65	0.75
0.86	450,000	8.12	0.86
1.00	50,000	3.53	1.00
1.05	71,428	3.61	1.05
$0.60-1.05	8,111,028	2.98	$ 0.75

Cash received from warrants exercised during the three months ended September 30, 2008 and 2007 was $28,000 and $50,500.

Note 5: Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted

net loss per share is computed by dividing the net loss by the weighted average number of common and dilutive common equivalent shares outstanding during the period. As the Company had a net loss attributable to common stockholders in each of the periods presented, basic and diluted net loss per share are the same.

Excluded from the computation of diluted net loss per share for the three months ended September 30, 2008, because their effect would be antidilutive, are stock options and warrants to acquire 11,866,028 shares of common stock with a weighted-average exercise price of $0.86 per share. Also excluded from the computation of diluted net loss per share for the three months ended September 30, 2008 are 120,000 shares of common stock that may be issued if investors exercise their conversion right under the Debentures related to the 2003 Offering as discussed in Note 7 "Convertible Debt" because their effect would be antidilutive.

Excluded from the computation of diluted net loss per share for the three months ended September 30, 2007, because their effect would be antidilutive, are stock options and warrants to acquire 12,093,884 shares of common stock with a weighted-average exercise price of $0.99 per share. Also excluded from the computation of diluted net loss per share for the year ended September 30, 2007 are 220,000 shares of common stock that may be issued if investors exercise their conversion right under the Debentures related to the 2003 Offering as discussed in Note 7 "Convertible Debt" because their effect would be antidilutive.

For the three months ended September 30, 2008 and 2007, additional potential dilutive securities that were excluded from the diluted net loss per share computation are the exchange rights discussed in Note 8 "Deferred Wages and Accrued Professional Fees" that could result in options to acquire up to 223,000 shares of common stock with an exercise price of $1.00 per share at September 30, 2008 and 2007.

For purposes of earnings per share computations, shares of common stock that are issuable at the end of a reporting period are included as outstanding.

Note 6: Related Parties

Notes Payable to Stockholders

In April 2002, the Company issued a non-interest bearing bridge note payable to an officer of the Company in the amount of $7,500. The note is payable in full when the Company determines it has sufficient working capital to do so. On September 29, 2002, the officer who was owed the $7,500 died.

Note 7: Convertible Debt

On June 19, 2003, the Board of Directors approved the offering (the "2003 Offering") of $1,000,000 in convertible debentures (the "Debentures"). The Debentures are convertible into that number of shares of the Company's common stock equal to the amount of the converted indebtedness divided by $0.50 per share. The Debentures bear interest at a rate of 5% per annum, payable quarterly. Delinquent interest payments bear interest at a rate of 12% per annum. The Company is required to redeem each Debenture on the 5th anniversary of the date of the Debenture. The Company may, in its discretion, redeem any

Debenture at any time prior to the mandatory redemption date of the Debenture by providing no less than 60 days' prior written notice to the holder of the Debenture. Certain events of default will result in the Debentures being redeemable by the Company upon demand of the holder.

Upon the purchase of, and for each $0.50 of the Debenture's principal amount, the Company issued to each investor a warrant (the "Warrant") to purchase one (1) share of the Company's common stock at an exercise price of $0.75 per share. The Warrants are exercisable at any time prior to the 5th anniversary date of the redemption of the Debenture.

Warrants issued in connection with the 2003 Offering were recorded based on their relative fair value as compared to the fair value of the debt at issuance. The relative fair value of the warrants was recorded as paid-in capital. The intrinsic value of the Debentures results in a beneficial conversion feature, recorded as a discount against the Debentures, which reduces the book value of the convertible debt to not less than zero. The Company amortizes the discount using the effective interest method over the five-year life of the Debentures.

During the quarter ended March 31, 2005, the Board of Directors terminated the 2003 Offering. As of the closing date of the 2003 Offering, the Company had raised $503,000 from the 2003 Offering.

During the three months ended September 30, 2008, two investors exercised their conversion right and converted their Debenture in the principal amount of $50,000, pursuant to the terms of the 2003 Offering. Accordingly the investors were issued a total of 100,000 shares of common stock. The carrying value of the convertible debt was reclassified as equity upon conversion.

During the three months ended September 30, 2007, one investor exercised his conversion right and converted his Debenture in the principal amount of $15,000, pursuant to the terms of the 2003 Offering. Accordingly the investor was issued 30,000 shares of common stock. The carrying value of the convertible debt was reclassified as equity upon conversion. Since the convertible debt instruments include a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the three months ended September 30, 2007.

As of September 30, 2008, accrued interest on the Debentures was $1,126. The Company recorded interest expense related to the accretion of the discount on the Debentures and amortization of the convertible debt discount as a result of the conversions discussed above of $3,365 and $15,300 for the three months ended September 30, 2008 and 2007. As of September 30, 2008 the carrying value of the long-term portion of the Debentures was $4,866, net of unamortized debt discount of $30,134. As of September 30, 2008 the carrying value of the current portion of the Debentures was $18,981, net of unamortized debt discount of $6,019.

Note 8: Deferred Wages and Accrued Professional Fees

To reduce cash outflows, certain of the Company's employees, officers, consultants, and directors have agreed to defer a portion of their salaries and professional fees until the Company has sufficient resources to pay the amounts owed or to exchange such amounts into options as described below. At September 30, 2008, the Company has accrued $1,025,952 related to the deferred payment of salaries and professional fees of which $779,802 is included under deferred wages and $246,150 in accrued professional fees. On March 18, 2002, the Board approved a conversion right on all deferred wages and accrued professional fees deferred as of March 18, 2002 (the "Conversion Right"). Pursuant to the Conversion Right, employees, officers, consultants, and directors may elect to convert $1.00 of fees owed to them as of March 18, 2002 for an option to

purchase two shares of the Company's common stock, at an exercise price of $1.00 per share for a term of five years. Of the total $1,025,952 deferred salaries and professional fees, the amount subject to the Conversion Right is $111,500, resulting in the potential issuance of 223,000 options under the terms mentioned above. No conversions have occurred to date. At March 18, 2002, there was no intrinsic value associated with these exchange rights. As such, no additional compensation cost was recorded.

Note 9: 2007 Private Placement Equity Offering

On June 21, 2007, the Company entered into a private placement offering (the "2007 Offering") of 1,300,000 shares of common stock at $0.90 per share to accredited investors. On October 4, 2007, the Board approved an increase in the offering to 2,000,000 shares of common stock for a total offering price of $1,800,000. On June 24, 2008, the Board determined that it was in the best interests of the Company to extend the termination date of the 2007 Offering and voted to extend the expiration date to August 15, 2008.

During the three months ended September 30, 2008 and 2007, the Company raised $998,903 and $978,300 under the terms of the 2007 Offering. Accordingly, the Company issued 1,109,885 and 1,086,998 shares of common stock pursuant to the terms of the 2007 Offering during the three months ended September 30, 2008 and 2007.

The 2007 Offering was closed on August 15, 2008. The Company raised gross proceeds of $2,295,404 and issued 2,550,439 shares of common stock pursuant to the terms of the 2007 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2007 Offering. Pursuant to the terms of the agreement with the brokerage firms, the Company paid the brokerage firms a ten percent cash commission on all funds that the brokerage firm helped raise. Accordingly, during the three months ended September 30, 2008 and 2007, the Company incurred total cash fees payable to the brokerage firms of $99,890 and $97,860. As of September 30, 2008, the Company was current with respect to the amount owed the brokerage firms.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe the Company's projected future results, future plans, objectives or goals or future conditions or events are also forward looking statements. Actual results are inherently difficult to predict. Any such forward-looking statements are subject to the risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, operations, expenditures, expansion and other events to differ materially from those expressed or implied in such forward-looking statements. Any such forward-looking statements would be subject to a number of assumptions regarding, among other things, future economic, competitive and market conditions generally. Such assumptions would be based on facts and conditions as

they exist at the time such statements are made as well as predictions as to future facts and conditions, the accurate prediction of which may be difficult and involve the assessment of events beyond the Company's control.

The forward-looking statements contained in this report are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that the Company will obtain or have access to adequate financing to continue its operations, that the Company will market and provide products and services on a timely basis, that there will be no material adverse competitive or technological change with respect to the Company's business, demand for the Company's products and services will significantly increase, that the Company will be able to secure additional fee-for-services or licensing contracts, that the Company's executive officers will remain employed as such by the Company, that the Company's forecast accurately anticipate market demand, and that there will be no material adverse change in the Company's operations, business or governmental regulation affecting the Company or its customers. The foregoing assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. Although the Company believes the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements.

Overview

Profile Technologies, Inc. is in the business of providing pipeline inspection services to locate corrosion and other anomalies that require assessment to verify pipeline integrity. The Company has developed a patented, non-destructive and non-invasive, high speed scanning process that uses

electromagnetic waves to remotely inspect buried and aboveground, cased and insulated pipelines for corrosion and other anomalies. The Company's inspection services are available to owners and operators of natural gas and oil pipelines, power plants and refineries, utilities, and other facilities which have cased or insulated pipe. The Company is actively marketing to this sector. In conjunction with providing inspection services, the Company continues research and development of the application of its patented technologies to inspect pipelines for internal corrosion and anomalies as well as for those pipelines that are directly buried.

EMW-C Technology

The Company's core business is based on the technologies that it has developed and patented for inspection of pipelines using electromagnetic waves. Born from these technologies, the Company has researched and developed inspection methods that have become commercial or near commercial products and services. The Company currently offers a service to inspect cased and thermally insulated pipelines. This service is marketed by the Company as the EMW-C(TM). The Company is also in the process of adapting its technology to inspect pipeline internals for corrosion and other anomalous conditions and has filed patents for this adaptation. Other applications including inspection of direct buried pipelines and expansion to other non-pipeline industries are also in

consideration for development.

Capital will be expended to support operations until the Company can generate sufficient cash flows from operations. In order to do so, the Company must obtain additional revenue generating contracts for the use of its commercially available EMW-C(TM) service. The Company has identified a significant need for cased and insulated pipeline inspection services throughout North America and abroad. The Company believes that its EMW technology possesses unique capabilities, is flexible in its application and provides a cost efficient solution to obtaining valuable information about the condition of the pipeline that is otherwise difficult to obtain. The Company is working to position itself as the preferred inspection method by working with pipeline operators, associations, and regulatory agencies to provide them with an understanding of the Company's EMW technology and its advantages. The Company has, and will continue to provide demonstrations, visit with pipeline operators, and provide presentations at industry conferences. Since the availability of the EMW-C(TM) in November of 2007, this effort has already resulted in several field demonstrations and revenue generating contracts and has likewise raised interest for additional field inspections.

As revenue is generated, the Company will continue to manufacture its EMW inspection equipment. The Company will also need to hire and train additional technicians to provide inspection services as demand requires. The Company expects that if revenue contracts are secured, working capital requirements will increase. The Company will incur additional expenses as it hires and trains field crews and support personnel related to the successful receipt of commercial contracts. Additionally, the Company anticipates that cash will be used to meet capital expenditure requirements necessary to develop infrastructure to support future growth. In time, with increased sales, the Company may consider its position as a service provider and alternatively sell or lease its service to pipeline operators and/or inspection service providers while maintaining the intellectual rights to the technology and equipment.

At times when resources and funds are available, the Company will continue to further develop its secondary technologies with the intent to offer them commercially. The internal pipeline inspection method is best suited as the next potential product as patents have already been filed and the development closely aligns with that of the existing cased and insulated pipeline inspection method. The Company has already fielded inquires about this new method from potential customers and expects the development time to be 12 to 24 months, building upon the previous research already conducted. However, the Company does not expect to proceed to full time development of this method until greater revenues are achieved from the EMW-C(TM) or alternate funding and resources are made available.

Results of Operations

Revenue for the three months ended September 30, 2008 and 2007 was $17,183 and $nil. Revenue for the three months ended September 30, 2008 consists of pipeline inspections performed for one customer. Prior to obtaining these revenue generating contracts, the Company was engaged solely in the redevelopment and improvement of its testing hardware and software.

Cost of revenue for the three months ended September 30, 2008 and 2007 was $11,357 and $nil. Cost of revenue for the three months ended September 30, 2008 includes travel expenses to mobilize and demobilize field crews and inspection

equipment to and from the inspection site and employee and consultant compensation expense to prepare for the job, inspect the pipelines, and interpret and report the related data to the customer.

Research and development expense for the three months ended September 30, 2008 was $82,433 as compared to $87,166 for the three months ended September 30, 2007. Research and development expense consists of fees paid to consulting scientists to develop the Company's inspection technologies and hardware, salary and benefit costs for employees, and supplies and equipment utilized for the development of the inspection technologies.

Selling expense for the three months ended September 30, 2008 was $22,450 as compared to $nil for the three months ended September 30, 2007. Selling expense is primarily comprised of salary expense for employees who spend time meeting with prospective customers, costs that are incurred by the Company to provide field demonstrations to prospective customers, and costs incurred to attend conferences and trade shows.

General and administrative expense for the three months ended September 30, 2008 was $205,308 as compared to $187,472 for the three months ended September 30, 2007. The increase is primarily due to the increase in medical and life insurance premiums.

Loss from operations for the three months ended September 30, 2008 was $304,365 as compared to $274,638 for the three months ended September 30, 2007. The increase of $29,727, or 11%, is primarily due to increases in selling expense of $22,450 and general and administrative expense of $17,836 as a direct result of providing demonstrations, visiting with pipeline operators, and providing presentations at industry conferences in anticipation of obtaining revenue generating contracts in addition to an overall increase in employee benefit expense.

The Company recorded a loss on disposal of fixed assets of $7,567 during the three months ended September 30, 2008 as a result of the removal of the cost and accumulated depreciation from the Company's financial statements for field equipment that was either no longer in service or deemed obsolete.

Interest expense for the three months ended September 30, 2008 was $4,994 as compared to $17,318 for the three months ended September 30, 2007. The decrease of $12,324 is substantially the impact of investors exercising their conversion right in accordance with the terms of the 2003 Offering. Two investors exercised their conversion right during the three months ended September 30, 2008 as compared to one investor during the three months ended September 30, 2007. The discount related to the Debentures converted during the three months ended September 30, 2008 was expensed during fiscal year 2004 when these Debentures were deemed to be in default with respect to the payment of accrued interest. The Company had not defaulted on the Debenture converted to equity during the three months ended September 30, 2007. Since the convertible debt instruments include a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the three months ended September 30, 2007. The decrease in interest expense during the three months ended September 30, 2008 compared to September 30, 2007 as a result of the conversion of the Debentures was offset by an increase in the accretion of the discount on the Debentures. Accreted interest on the Debentures was $3,365 for the three months ended September 30, 2008 as compared to $498 for the three months ended September 30, 2007.

Interest income for the three months ended September 30, 2008 was $2,482, a decrease of $543, as compared to $3,025 for the three months ended September 30, 2007.

The Company incurred a net loss of $314,444 and $288,931 for the three

months ended September 30, 2008 and 2007.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred cumulative losses of $16,720,642 through September 30, 2008, and had negative working capital of $261,597 as of September 30, 2008. Additionally, the Company has expended a significant amount of cash in developing its technology and patented processes. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

On August 15, 2008, the Company closed a private offering of its common stock, raising gross proceeds of $2,295,404 from the sale of 2,550,439 shares of common stock (see Note 9, "2007 Private Placement Equity Offering"). However, management recognizes that in order to meet the Company's capital requirements

and continue to operate, additional financing, including seeking industry-partner investment or through joint ventures or other possible arrangements within the next twelve months. The Company is evaluating alternative sources of financing to improve its cash position and is undertaking efforts to raise capital. If the Company is unable to raise additional capital or secure revenue contracts and generate positive cash flow, it is unlikely that the Company will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

At September 30, 2008, the Company had cash and cash equivalents of $950,566. The Company has financed its operations primarily from funds received pursuant to the 2007 Private Placement Equity Offering completed by the Company on August 15, 2008, raising net proceeds of $2,065,864.

Net cash used in operating activities was $265,926 for the three months ended September 30, 2008, compared to net cash used of $196,854 for the same period in 2007. The increase of $69,072 in cash used was partially the result of the Company hiring a new employee in March 2008 (contributing to the increase by approximately $17,000), increasing the amount paid to an existing employee (contributing to the increase by $6,000), an increase in employee benefits and insurance (contributing to the increase by approximately $8,000), and an increase in supplies and equipment purchased for the development of the inspection technologies.

Net cash used in investing activities was $4,634 for the three months ended September 30, 2008, compared to $nil during the same period in 2007. During the three months ended September 30, 2008, the Company purchased $4,634 of contract related equipment.

Net cash provided by financing activities was $927,013 for the three months ended September 30, 2008 compared to net cash provided by financing activities of $925,470 for the same period in 2007. During the three months ended September 30, 2008, the Company raised net proceeds of $899,013 pursuant to the terms of the 2007 Offering compared to $880,470 during the three months ended September 30, 2007. Offsetting the increase in cash provided by financing activities as a result of proceeds received pursuant to the 2007 Offering was the decrease in proceeds from the exercise of warrants, which was $28,000 during the three

months ended September 30, 2008 and $45,000 during the same period in 2007.

Deferred Wages and Accrued Professional Fees

To reduce cash outflows, certain of the Company's employees, officers, consultants, and directors have agreed to defer a portion of their salaries and professional fees until the Company has sufficient resources to pay the amounts owed or to exchange such amounts into options as described below. At September 30, 2008, the Company has accrued $1,025,952 related to the deferred payment of salaries and professional fees of which $779,802 is included under deferred wages and $246,150 in accrued professional fees. On March 18, 2002, the Board approved a conversion right on all deferred wages and accrued professional fees deferred as of March 18, 2002 (the "Conversion Right"). Pursuant to the Conversion Right, employees, officers, consultants, and directors may elect to convert $1.00 of fees owed to them as of March 18, 2002 for an option to purchase two shares of the Company's common stock, at an exercise price of $1.00 per share for a term of five years. Of the total $1,025,952 deferred salaries and professional fees, the amount subject to the Conversion Right is $111,500, resulting in the potential issuance of 223,000 options under the terms mentioned above. No conversions have occurred to date. At March 18, 2002, there was no intrinsic value associated with these exchange rights. As such, no additional compensation cost was recorded.

Convertible Debt

On June 19, 2003, the Board of Directors approved the offering (the "2003 Offering") of $1,000,000 in convertible debentures (the "Debentures"). The Debentures are convertible into that number of shares of the Company's common stock equal to the amount of the converted indebtedness divided by $0.50 per share. The Debentures bear interest at a rate of 5% per annum, payable quarterly. Delinquent interest payments bear interest at a rate of 12% per annum. The Company is required to redeem each Debenture on the 5th anniversary of the date of the Debenture. The Company may, in its discretion, redeem any Debenture at any time prior to the mandatory redemption date of the Debenture by providing no less than 60 days' prior written notice to the holder of the Debenture. Certain events of default will result in the Debentures being redeemable by the Company upon demand of the holder.

Upon the purchase of, and for each $0.50 of the Debenture's principal amount, the Company issued to each investor a warrant (the "Warrant") to purchase one (1) share of the Company's common stock at an exercise price of

$0.75 per share. The Warrants are exercisable at any time prior to the 5th anniversary date of the redemption of the Debenture.

Warrants issued in connection with the 2003 Offering were recorded based on their relative fair value as compared to the fair value of the debt at issuance. The relative fair value of the warrants was recorded as paid-in capital. The intrinsic value of the Debentures results in a beneficial conversion feature, recorded as a discount against the Debentures, which reduces the book value of the convertible debt to not less than zero. The Company amortizes the discount using the effective interest method over the five-year life of the Debentures.

During the quarter ended March 31, 2005, the Board of Directors terminated the 2003 Offering. As of the closing date of the 2003 Offering, the Company had

raised $503,000 from the 2003 Offering.

During the three months ended September 30, 2008, two investors exercised their conversion right and converted their Debenture in the principal amount of $50,000, pursuant to the terms of the 2003 Offering. Accordingly the investors were issued a total of 100,000 shares of common stock. The carrying value of the convertible debt was reclassified as equity upon conversion.

During the three months ended September 30, 2007, one investor exercised his conversion right and converted his Debenture in the principal amount of $15,000, pursuant to the terms of the 2003 Offering. Accordingly the investor was issued 30,000 shares of common stock. The carrying value of the convertible debt was reclassified as equity upon conversion. Since the convertible debt instruments include a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the three months ended September 30, 2007.

As of September 30, 2008, accrued interest on the Debentures was $1,126. The Company recorded interest expense related to the accretion of the discount on the Debentures and amortization of the convertible debt discount as a result of the conversions discussed above of $3,365 and $15,300 for the three months ended September 30, 2008 and 2007. As of September 30, 2008 the carrying value of the long-term portion of the Debentures was $4,866, net of unamortized debt discount of $30,134. As of September 30, 2008 the carrying value of the current portion of the Debentures was $18,981, net of unamortized debt discount of $6,019.

2007 Private Placement Equity Offering

On June 21, 2007, the Company entered into a private placement offering (the "2007 Offering") of 1,300,000 shares of common stock at $0.90 per share to accredited investors. On October 4, 2007, the Board approved an increase in the offering to 2,000,000 shares of common stock for a total offering price of $1,800,000. On June 24, 2008, the Board determined that it was in the best interests of the Company to extend the termination date of the 2007 Offering and voted to extend the expiration date to August 15, 2008.

During the three months ended September 30, 2008 and 2007, the Company raised $998,903 and $978,300 under the terms of the 2007 Offering. Accordingly, the Company issued 1,109,885 and 1,086,998 shares of common stock pursuant to the terms of the 2007 Offering during the three months ended September 30, 2008 and 2007.

On August 15, 2008, the 2007 Offering was closed. The Company raised gross proceeds of $2,295,404 and issued 2,550,439 shares of common stock pursuant to the terms of the 2007 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2007 Offering. Pursuant to the terms of the agreement with the brokerage firms, the Company paid the brokerage firms a ten percent cash commission on all funds that the brokerage firm helped raise. Accordingly, during the three months ended September 30, 2008 and 2007, the Company incurred total cash fees payable to the brokerage firms of $99,890 and $97,860. As of September 30, 2008, the Company was current with respect to the amount owed the brokerage firms.

Other Commitments

The Company's other contractual obligations consist of commitments under an operating lease and repayment of a loan payable to a stockholder.

As of September 30, 2008, the Company had an outstanding loan payable to a stockholder with a principal amount of $7,500. The terms stockholder note is described under "Note 6: Related Parties - Notes Payable to Stockholders."

As of September 30, 2008, the Company has future minimum lease payments of approximately $21,735 under its operating leases.

Capital will be expended to support operations until the Company can generate sufficient cash flows from operations. In order for the Company to generate cash flows from operations, the Company must obtain additional revenue generating contracts. Management is currently directing the Company's activities towards obtaining additional service contracts, which, if obtained, will necessitate the Company attracting, hiring, training and outfitting qualified technicians. If additional service contracts are obtained, it will also necessitate additional field test equipment purchases in order to provide the services. The Company's intention is to purchase such equipment for its field crews for the foreseeable future, until such time as the scope of operations may require alternate sources of financing equipment. The Company expects that if additional contracts are secured, and revenues increase, working capital requirements will increase. There can be no assurance that the Company's process will gain widespread commercial acceptance within any particular time frame, or at all. The Company will incur additional expenses as it hires and trains field crews and support personnel related to the successful receipt of commercial contracts. Additionally, the Company anticipates that cash will be used to meet capital expenditure requirements necessary to develop infrastructure to support future growth. There can be no assurance that the Company will be able to secure additional revenue generating contracts to provide sufficient cash.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 3 to the Financial Statements in this Form 10-Q.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the Company's periodic filings under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not aware of any legal proceedings contemplated by any governmental authority or any other party involving the Company or its properties. As of the date of this report, no director, officer or affiliate is a party adverse to the Company in any legal proceeding or has an adverse interest to the Company in any legal proceedings. The Company is not aware of any other legal proceedings pending or that have been threatened against the Company or its properties.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Common Stock

On June 21, 2007, the Company entered into a private placement offering (the "2007 Offering") of 1,300,000 shares of common stock at $0.90 per share to accredited investors. On October 4, 2007, the Board approved an increase in the offering to 2,000,000 shares of common stock for a total offering price of $1,800,000. On June 24, 2008, the Board determined that it was in the best interests of the Company to extend the termination date of the 2007 Offering and voted to extend the expiration date to August 15, 2008.

During the three months ended September 30, 2008, the Company raised $998,903 under the terms of the 2007 Offering. Accordingly, the Company issued 1,109,885 shares of common stock pursuant to the terms of the 2007 Offering. The issuance of the common stock is exempt from registration pursuant to Section 4(2) of the Securities Act and the stock certificates contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

Convertible Debentures and Warrants

On June 19, 2003, the Board of Directors approved the offering (the "2003 Offering") of $1,000,000 in convertible debentures (the "Debentures"). The Debentures are convertible into that number of shares of the Company's common stock equal to the amount of the converted indebtedness divided by $0.50 per share. The Debentures bear interest at a rate of 5% per annum, payable quarterly. Delinquent interest payments bear interest at a rate of 12% per annum. The Company is required to redeem each Debenture on the 5th anniversary of the date of the Debenture. The Company may, in its discretion, redeem any Debenture at any time prior to the mandatory redemption date of the Debenture by providing no less than 60 days' prior written notice to the holder of the Debenture. Certain events of default will result in the Debentures being redeemable by the Company upon demand of the holder.

Upon the purchase of, and for each $0.50 of the Debenture's principal amount, the Company issued to each investor a warrant (the "Warrant") to purchase one (1) share of the Company's common stock at an exercise price of $0.75 per share. The Warrants are exercisable at any time prior to the 5th anniversary date of the redemption of the Debenture.

The 2003 Offering was exempt from the registration under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D, promulgated by the SEC. In the 2003 Offering, no general solicitation was made by the Company or any person acting on behalf of the Company, the Debentures and Warrants were sold subject to transfer restrictions, and the certificates for the Debentures and Warrants contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

During the three months ended September 30, 2008, two investors exercised their conversion right and converted their Debentures in the principal amount of $50,000, pursuant to the terms of the 2003 Offering. Accordingly, the Company issued 100,000 shares of common stock in accordance with the terms of the 2003 Offering.

Warrant Exercise

During the three months ended September 30, 2008, a stockholder exercised a warrant to purchase 40,000 shares of common stock at $0.70 per share. The issuance of the common stock is exempt from registration pursuant to Section

4(2) of the Securities Act and the stock certificate contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

See the Exhibit Index attached hereto following the signature page.

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities and Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROFILE TECHNOLOGIES, INC.
(Registrant)

Date: November 6, 2008

/s/ Henry E. Gemino

Henry E. Gemino
Chief Executive Officer and
Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
Exhibit 3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 filed with the Commission on May 10, 1996).
Exhibit 3.2	Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form SB-2 filed with the Commission on May 10, 1996).
Exhibit 3.3	Amendment to Certificate of Incorporation (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed with the Commission on October 28, 2002).
Exhibit 3.4	Amendment to Certificate of Incorporation (incorporated by reference to Appendix A to the Company's Preliminary Proxy Statement filed with the Commission on September 13, 2006).
Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of Henry E. Gemino, as Chief Executive Officer and Chief Financial Officer of the Company. *
Exhibit 32.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002 by Henry E. Gemino, as Chief Executive Officer and Chief Financial Officer of the Company. *

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* Filed herewith.