PROFILE TECHNOLOGIES INC
Form 10-Q
May 14, 2009

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 March 31, 2009

|_| 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	|_|	Smaller reporting company	|X|

if a smaller reporting company)

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: 15,831,097 shares of Common Stock as of May 11, 2009.

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PROFILE TECHNOLOGIES, INC.
FORM 10-Q
For the Quarterly Period Ended March 31, 2009

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

PROFILE TECHNOLOGIES, INC.

BALANCE SHEETS
MARCH 31, 2009 AND JUNE 30, 2008
(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 $8,605 and $12,791	
Other assets	
Total assets	$
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable	$
Note payable to stockholder	
Current portion of convertible debt, net of unamortized discount of $21,956 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 $0 and $32,030	
Total liabilities	
Commitments and contingencies	
Stockholders' deficit	
Common stock, $0.001 par value: 40,000,000 shares authorized, 15,719,145 and 14,383,705 shares issued and outstanding	
Common stock issuable; 11,952 and 5,555 shares	
Additional paid-in capital	
Accumulated deficit	(
Total stockholders' deficit	

Total liabilities and stockholders' deficit	$

(The accompanying notes are an integral part of these financial statemen

PROFILE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)

	Three Months Ended March 31,		Nine
	2009	2008	2009
Revenue	$ --	$ --	$ 27,2
Cost of revenue	(678)	--	(23,8
Gross margin	(678)	--	3,4
Operating expenses			
Research and development	89,549	59,084	467,4
Selling	40,092	62,861	124,6
General and administrative	180,765	159,022	1,102,6
Total operating expenses	310,406	280,967	1,694,8
Loss from operations	(311,084)	(280,967)	(1,691,3
Other income (expense)			
Gain (loss) on sale (disposal) of fixed assets	--	6,914	(7,5
Interest expense	(9,603)	(3,115)	(20,9
Interest income	67	3,989	3,2
Total other income (expense)	(9,536)	7,788	(25,2
Net loss	$ (320,620)	$ (273,179)	$ (1,716,6
Net loss per share - basic and diluted	$ (0.02)	$ (0.02)	$ (0.
Weighted average shares outstanding used to calculate basic and diluted net loss per share	15,700,986	14,316,123	15,495,2

(The accompanying notes are an integral part of these financial statements)

PROFILE TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE NINE MONTHS ENDED MARCH 31, 2009 AND YEAR ENDED JUNE 30, 2008
(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	--	--
Stock compensation amortization expense	--	--
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	--	--
Issuance of common stock options for services to consultants	--	--
Issuance of common stock options for services to employees and board of directors	--	--
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	140,000	140
Exercise of stock options	40,000	40
Exercise of warrants	40,000	40
Net loss	--	--
Balance at March 31, 2009	15,719,145	$ 15,719

Table continues below.

	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	509,250	--
Stock compensation amortization expense	16,626	--
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	2,687	--	
Issuance of common stock options for services to consultants	114,400	--	
Issuance of common stock options for services to employees and board of directors	668,300	--	
Stock compensation amortization expense	16,689	--	
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	74,850	--	
Exercise of stock options	27,960	--	
Exercise of warrants	27,960	--	
Net loss	--	(1,716,608)	
Balance at March 31, 2009	$ 17,297,547	$(18,122,806)	$

(The accompanying notes are an integral part of these financial statements)

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PROFILE TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)

	Nine Mo Ma 2009
Cash flows from operating activities	
Net loss	$(1,716,608
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	1,352
Loss (gain) on disposal of fixed assets	7,567
Accreted discount on convertible debt	13,872
Amortization of convertible debt discount included in interest expense	3,690
Amortization of debt issuance costs	80
Equity issued for services to consultants	117,089
Equity issued for services to employees and board of directors	668,300
Stock compensation amortization expense	16,689
Changes in operating assets and liabilities:	
Decrease in accounts receivable	16,872
Increase in deferred contract costs	--
Decrease (increase) in prepaid expenses and other current assets	2,581
(Increase) decrease in other assets	(336

(Decrease) increase in accounts payable	(5,959
Increase in deferred wages	30,922
Increase in accrued professional fees	22,000
Decrease in accrued interest	(750
Net cash used in operating activities	(822,639
Cash flows from investing activities	
Purchase of fixed assets	(4,634
Proceeds from sale of fixed assets	--
Net cash (used in) provided by investing activities	(4,634
Cash flows from financing activities	
Common stock issuance costs	(99,890
Proceeds from issuance of common stock	998,903
Proceeds from exercise of stock options and warrants	56,000
Net cash provided by financing activities	955,013
Increase in cash and cash equivalents	127,740
Cash and cash equivalents at beginning of period	294,113
Cash and cash equivalents at end of period	$ 421,853
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 3,505
Convertible debt converted into 150,000 and 30,000 shares of common stock during the nine months ended March 31, 2009 and 2008	$ 75,000

(The accompanying notes are an integral part of these financial statements)

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PROFILE TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS

March 31, 2009
(Unaudited)

Note 1. Organization and Description of Business

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 inspect remotely buried and above ground, 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, refineries, utilities, and other facilities which have cased or insulated pipe. The Company is actively marketing to these sectors. 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.

Note 2. Going Concern Uncertainties

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred cumulative losses of $18,122,806 through March 31, 2009, does not have positive cash flows from operating activities, and had negative working capital of $820,369 as of March 31, 2009. 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. These financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Note 3. 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 March 31, 2009 and June 30, 2008, the results of operations for the three and nine months ended March 31, 2009 and 2008 and cash flows for the nine months ended March 31, 2009 and 2008. 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.

Certain information and footnote disclosures normally included in the quarterly 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 4. Summary of Significant Accounting Policies

The preparation of the Company's financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for the Company include service contract revenue and cost recognition, accounting for research and development costs, and accounting for stock-based compensation. On an on-going basis, the Company evaluates its estimates. Actual results and outcomes may differ materially from these estimates and assumptions.

Service Contract Revenue and Cost Recognition

The Company recognizes revenue from service contracts using the proportional performance method of accounting. Contract revenue earned is measured based on the number of measurable units of pipelines inspected to the total number of units contracted to be inspected. Revenue is recognized based on the completion of such measurable units. The proportional performance method is used to recognize revenue because management considers measurable units of completion to be the best available measure of progress towards the completion of service contracts. Changes in estimated revenue on service contracts are recognized during the period in which the change in estimate becomes known.

Cost of revenue includes time incurred and materials used to plan the pipeline inspections, mobilize and demobilize field crews, perform the inspection services, analyze the resulting data and prepare the final inspection report. Cost of revenue also includes any idle time incurred by personnel scheduled to work on customer contracts. Costs are recognized as incurred as they are not an indicator of the progress towards completion of the pipeline inspection services.

Anticipated losses on service contracts, if any, are charged to earnings in their entirety as soon as such losses can be estimated.

Research and Development

Research and development costs represent costs incurred to develop the Company's technology, including employee and consultant time and material and equipment expense. The Company charges all research and development expenses to operations as they are incurred except for prepayments which are capitalized and amortized over the applicable period.

During the three months ended March 31, 2009 and 2008, the Company incurred $89,549 and $59,084 on research and development activities. During the nine months ended March 31, 2009 and 2008, the Company incurred $467,464 and $324,264 on research and development activities.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123R Share-Based Payment ("SFAS 123R"). Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected lives and volatility. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted.

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 March 31, 2009 and 2008, the Company incurred cash fees

payable to the scientists of $65,214 and $60,733. During the nine months ended March 31, 2009 and 2008, the Company incurred cash fees payable to the scientists of $184,027 and $219,160.

On November 17, 2008, as partial compensation for services rendered, the Company granted the scientists stock options to purchase a total of 50,000 shares of common stock at an exercise price of $1.70 per share, expiring November 16, 2013. The 50,000 stock options had a fair value at the date of grant of $52,000, which is included in research and development expense in the Company's Statements of Operations for the nine months ended March 31, 2009.

On November 16, 2007, as partial compensation for services rendered, the Company granted the scientists stock options to purchase a total of 50,000 shares of common stock at an exercise price of $1.20 per share, expiring November 15, 2012. The 50,000 stock options had a fair value at the date of grant of $38,000, which is included in research and development expense in the Company's Statements of Operations for the nine months ended March 31, 2008.

Total cash and equity compensation expense incurred for settlement of services rendered by the scientists totaled $65,214 and $236,027 for the three and nine months ended March 31, 2009.

Total cash and equity compensation expense incurred for settlement of services rendered by the scientists totaled $60,733 and $257,160 for the three and nine months ended March 31, 2008.

As of March 31, 2009, the Company owed the consultant scientists a total of $85,194, which is included in accounts payable.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), which establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement 157" (FSP 157-2), which allows for the deferral of the adoption date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is required to adopt SFAS 157 for the assets and liabilities within the scope of FSP 157-2 on July 1, 2009, the beginning of its fiscal year 2010. In October 2008, the FASB issued SFAS Staff Position No. 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. The adoption of SFAS 157 for those assets and liabilities not subject to the deferral permitted by FSP 157-2 did not have a material impact on the Company's financial statements. The Company does not expect the adoption of SFAS 157 for non-financial assets and liabilities to have a material impact on its financial statements. The guidance in FSP 157-3 is effective immediately and did not have a material effect 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 non-forfeitable 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." FSP EITF 03-06-1 must be adopted for reporting periods beginning after December 15, 2008. FSP 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 its 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 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 its financial statements.

In May 2008, the FASB issued Staff Position ("FSP") No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("FSP APB 14-1"), which states that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14 and that issuers of such instruments should account separately for the liability and equity components of the instruments in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and must be applied retrospectively to all periods presented. The Company must adopt FSP APB 14-1 on July 1, 2009, the beginning of its fiscal year 2010. The Company does not expect the application of FSP APB 14-1 to have a material effect on its financial statements.

Note 5. Stock Based Compensation, Stock Options and Warrants

Stock Option Plans

1999 Stock Plan

On November 16, 1998, the stockholders of the Company ("Stockholders") approved and adopted the 1999 Stock Plan (the "1999 Stock Plan"). The 1999 Stock 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 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. In accordance with the 1999 Stock Plan, no incentive stock options may be granted more than ten years after the 1999 Stock Plan's effective date.

Since the inception of the 1999 Stock 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 Stock Plan.

2008 Stock Plan

On July 10, 2008, The Board approved and adopted the 2008 Stock Ownership Incentive Plan ("2008 Stock Plan") and received Stockholder approval on November 17, 2008. Upon adoption of the 2008 Stock Plan by the Stockholders, the Company may no longer grant stock options under the 1999 Stock Plan.

The 2008 Stock Plan is intended to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees and consultants, and to promote the success of the Company's business. In accordance with the 2008 Stock Plan, the Company may grant stock options to purchase up to 3,500,000 shares of common stock. The 2008 Plan allows incentive stock options to be granted with an expiration date of a maximum of five years and nonqualified stock options to be granted with an expiration date of a maximum of ten years from the date of grant.

The grant date 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 grant date 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 March 31,		Nine Months March 3	
	2009	2008	2009	
Risk-free interest rate	*N/A	1.86%	2.13%	
Volatility	*N/A	128.74%	134.11%	
Expected dividend yield	*N/A	0%	0%	
Expected life	*N/A	3.8 years	4.5 years	4
Weighted average Black-Scholes value of options granted	*N/A	$ 0.90	$1.40	

*N/A There were no stock option grants during the three months ended March 31, 2009.

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.

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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 and nine months ended March 31, 2009 and 2008:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	2008	2009	2008
General and administrative	$ --	$ --	$540,700	$527,100
Research and development	5,563	5,563	258,689	76,813
Total	$ 5,563	$ 5,563	$799,389	$603,913

On November 17, 2008, the Board approved the issuance of stock options, exercisable for a total of 525,000 shares of common stock pursuant to the 2008 Stock Plan to certain directors, officers, employees and consultants of the Company. The grant date of the stock options was November 17, 2008 and they are fully vested upon grant. The stock options granted to directors, officers, and employees are exercisable until November 16, 2018. The stock options granted to the consultants are exercisable until November 16, 2013. The exercise price of the stock options granted to affiliates owning or controlling more than ten percent of the Company's common stock was $1.87. The exercise price of the stock options granted to non-affiliates was $1.70. On November 17, 2008, the date of grant, the Company recognized $242,000 as research and development expense related to the fair value of 175,000 of the stock options and $501,850 as general and administrative expense related to the fair value of 350,000 of the stock options. The fair value of the stock option grants that expire on November 16, 2018 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 141%, risk-free interest rate of 2.32%, expected lives of five years, and a 0% dividend yield. The fair value of the stock option grants that expire on November 16, 2013 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 107%, risk-free interest rate of 1.53%, expected lives of 2.5 years, and a 0% dividend yield.

On December 1, 2008, the Board nominated John Agunzo to the Board of Directors. The Board granted Mr. Agunzo an option to purchase 35,000 shares of the Company's common stock, under the Company's 2008 Stock Plan. The exercise price of the stock option was $1.26, the closing price of the Company's common stock on December 2, 2008, the first day of active trading following the date of grant. The stock option is fully vested upon grant and expires on November 30, 2018. In addition, Mr. Agunzo will receive $1,000 per month as compensation for his services as a Board member, all of which is being deferred until the Company determines that it has the resources to pay it. The Company recognized $38,850, at the time of grant, as general and administrative expense for the fair value of the option grant. The fair value of the option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 136%, risk-free interest rate of 1.71%, expected life of five years, and a 0% dividend yield.

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A summary of the Company's stock option activity for the nine months ended March 31, 2009 and related information follows:

	Number Of Stock Options (1)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 30, 2008	3,755,000	$ 1.11		
Grants	560,000	1.71		
Exercises	(40,000)	0.70		
Expirations	(70,000)	0.70		
Outstanding at March 31, 2009	4,205,000	$ 1.20	6.25 years	$ 48,150
Exercisable at March 31, 2009	4,130,000	$ 1.20	6.30 years	$ --
Available for grant at March 31, 2009 (2)	2,940,000			

(1) Consists of stock options outstanding under the 1999 Stock Plan, 2008 Stock Plan, and stock options outstanding that were granted outside of the 1999 Stock Plan and the 2008 Stock Plan.

(2) Shares available for future stock option grants to employees, officers, directors and consultants of the Company under the 2008 Stock 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 third quarter of 2009 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 March 31, 2009. This amount changes based on the fair market value of the Company's common stock.

As of March 31, 2009, the Company had $55,685 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 2.5 years.

Cash received from stock options exercised during the three and nine months ended March 31, 2009 was $0 and $28,000.

The following table summarizes information about stock options outstanding and exercisable at March 31, 2009:

	Stock Options Outstanding			Stock Options Exercisable		
Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weig Aver Exer Pri

$ 0.50	20,000	0.12	$ 0.50	20,000	0.12	$ 0
0.86	435,000	7.62	0.86	435,000	7.62	0
0.95	140,000	7.62	0.95	140,000	7.62	0
1.05	150,000	2.66	1.05	112,500	2.41	1
1.12	285,000	5.21	1.12	285,000	5.21	1
1.13	50,000	3.93	1.13	12,500	3.93	1
1.16	1,850,000	5.21	1.16	1,850,000	5.21	1
1.20	350,000	7.06	1.20	350,000	7.06	1
1.21	150,000	6.70	1.21	150,000	6.70	1
1.26	35,000	9.67	1.26	35,000	9.67	1
1.32	200,000	8.63	1.32	200,000	8.63	1
1.50	15,000	8.45	1.50	15,000	8.45	1
1.70	390,000	8.22	1.70	390,000	8.22	1
1.87	135,000	9.64	1.87	135,000	9.64	1
$ 0.50 - $ 1.87	4,205,000	6.25	$ 1.20	4,130,000	6.30	$ 1

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 nine months ended March 31, 2009 and related information follows:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Outstanding at June 30, 2008	8,151,028	$ 0.75
Exercises	(40,000)	0.70
Outstanding at March 31, 2009	8,111,028	$ 0.75

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The following table summarizes information about warrants outstanding, all of which are exercisable at March 31, 2009:

Exercise Prices	Number of Warrants Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price

$ 0.60	439,600	2.37	$ 0.60
0.75	7,100,000	2.16	0.75
0.86	450,000	7.62	0.86
1.00	50,000	3.03	1.00
1.05	71,428	3.11	1.05
$ 0.60-1.05	8,111,028	2.48	$ 0.75

Cash received from warrants exercised during the three and nine months ended March 31, 2009 was $0 and $28,000.

Note 6. 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 and nine months ended March 31, 2009, because their effect would be antidilutive, are stock options and warrants to acquire 12,316,028 shares of common stock with a weighted-average exercise price of $.90 per share. Also excluded from the computation of diluted net loss per share for the three and nine months ended March 31, 2009 are 70,000 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 8 "Convertible Debt" because their effect would be antidilutive.

Excluded from the computation of diluted net loss per share for the three and nine months ended March 31, 2008, because their effect would be antidilutive, are stock options and warrants to acquire 11,966,028 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 and nine months ended March 31, 2008 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 8 "Convertible Debt" because their effect would be antidilutive.

For the three and nine months ended March 31, 2009 and 2008, additional potential dilutive securities that were excluded from the diluted net loss per share computation are the exchange rights discussed in Note 9 "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 March 31, 2009 and 2008.

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 7. Related Parties

Note Payable to Stockholder

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 8. 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 and nine months ended March 31, 2009, three and five investors, respectively, exercised their conversion right and converted their Debentures in the aggregate principal amounts of $25,000 and $75,000, respectively, pursuant to the terms of the 2003 Offering. Accordingly the investors were issued an aggregate of 50,000 and 150,000 shares of common stock during the three and nine months ended March 31, 2009. The carrying value of the convertible debt was reclassified as equity upon conversion. Since the Debentures included a beneficial conversion feature at issuance the remaining unamortized discount of $3,690 and $3,690 at the conversion date was recognized as interest expense during the three and nine months ended March 31, 2009.

During the three and nine months ended March 31, 2008, none and 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 instrument included a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the nine months ended March 31, 2008.

As of March 31, 2009, accrued interest on the Debentures was $621. 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 $8,767 and $17,562 for the three and nine months ended March 31, 2009. 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 $1,294 and $17,397 for the three and nine months ended March 31, 2008. As of March 31, 2009 the carrying value of the current portion of the Debentures was $13,044, net of unamortized debt discount of $21,956.

Note 9. 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 March 31, 2009, the Company has accrued $1,054,864 related to the deferred payment of salaries and professional fees of which $800,714 is included under deferred wages and $254,150 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 $1,054,864 deferred salaries and accrued 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 10. 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.

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.

During the three and nine months ended March 31, 2009 the Company raised none and $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 during the nine months ended March 31, 2009. During the three and nine months ended March 31, 2008, the Company raised $120,000 and $1,291,501 pursuant to the terms of the 2007 Offering. Accordingly, the Company issued 133,333 and 1,435,001 shares of common stock pursuant to the terms of the 2007 Offering during the three and nine months ended March 31, 2008.

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 and nine months ended March 31, 2009 the Company incurred total cash fees payable to the brokerage firms of none and $99,890. During the three and nine months ended March 31, 2008 the Company incurred total cash fees payable to the brokerage firms of $12,000 and $129,150. As of March 31, 2009, the Company was current with respect to the amount owed the brokerage firms.

Note 11. Subsequent Events

On April 11, 2007, the Company entered into a three-year consulting agreement ("Consulting Agreement") with R.F. Lafferty & Co., Inc. ("Lafferty") to provide consulting services and assist in obtaining both short and long-term financing. Pursuant to the terms of the Consulting Agreement the Company owes Lafferty a ten percent cash commission on all funds that they helped raise. As compensation, upon execution of the Consulting Agreement, the Company issued to Lafferty 100,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at an exercise price of $1.00 per share. The warrant expires on April 10, 2012.

On April 1, 2009, the Company's Board of Director's voted to extend the Consulting Agreement an additional year to April 11, 2011, on substantially the same terms as the existing Consulting Agreement. As compensation, upon execution of the extension of the Consulting Agreement, the Company issued Lafferty 100,000 shares of the Company's Common Stock.

On April 2, 2009, the Company entered into a private placement offering (the "2009 Offering") of 1,500,000 shares of common stock at $0.90 per share to accredited investors for a total offering price of $1,350,000. The 2009 Offering will expire on July 2, 2009, unless extended by the Company for a reasonable time period thereafter.

Subsequent to March 31, 2009, the Company has raised $78,000 pursuant to the terms of the 2009 Offering. Accordingly, the Company issued 86,667 shares of common stock.

Pursuant to an agreement with Lafferty dated May 30, 2007, the Company will pay Lafferty a ten percent cash commission on all funds raised by Lafferty in private placements of the Company's common stock on terms specified by the Company. Subsequent to March 31, 2009, Lafferty raised $78,000 pursuant to the terms of the 2009 Offering. Accordingly, the Company has incurred cash fees payable to Lafferty of $7,800.

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

Forward-Looking Statements

Except for the historical information presented in this document, the matters discussed in this Form 10-Q for the three months ended March 31, 2009, and specifically in the items entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," or otherwise incorporated by reference into this document, contain "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are identified by the use of forward-looking terminology such as "believes," "plans," "intend," "scheduled," "potential," "continue," "estimates," "hopes," "goal," "objective," expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties.

The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by the Company. The reader is cautioned that no statements contained in this Form 10-Q should be construed as a guarantee or assurance of future performance or results. These forward-looking

statements involve risks and uncertainties, including those identified within this Form 10-Q. The actual results that the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties. These forward-looking statements are based on current expectations, and the Company assumes no obligation to update this information. Readers are urged to carefully review and consider the various disclosures made by the Company in this Form 10-Q and in the Company's other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

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.

Because the Company is a smaller reporting company, certain disclosures otherwise required to be made in a Form 10-Q are not required to be made by the Company.

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

The Company recognizes revenue from service contracts using the proportional performance method of accounting. Contract revenue earned is measured based on the number of measurable units of pipelines inspected to the total number of units contracted to be inspected. Revenue is recognized based on the completion of such measurable units. The proportional performance method is used to recognize revenue because management considers measurable units of completion to be the best available measure of progress towards the completion of service contracts. Changes in estimated revenue on service contracts are recognized during the period in which the change in estimate becomes known.

Revenue consists of the pipeline inspection fee and reimbursement of costs incurred to mobilize and demobilize field crews and inspection equipment to and from the inspection site and other travel related costs.

The Company did not recognize revenue during the three months ended March 31, 2009 and 2008.

Revenue for the nine months ended March 31, 2009 and 2008 was $27,281 and $13,300. Revenue for the nine months ended March 31, 2009 consisted of pipeline inspections performed for two customers for a total of 9 casings. Revenue for the nine months ended March 31, 2008 consisted of pipeline inspections performed for one customer for a total of 2 casings.

Cost of revenue

Cost of revenue includes time incurred and materials used to plan the pipeline inspections, mobilize and demobilize field crews, perform the inspection services, analyze the resulting data and prepare the final inspection report.

Cost of revenue also includes any idle time incurred by personnel scheduled to work on customer contracts. Costs are recognized as incurred as they are not an indicator of the progress towards completion of the pipeline inspection services.

Cost of revenue for the three months ended March 31, 2009 and 2008 was $678 and $0. Cost of revenue for the three months ended March 31, 2009 represents amortization of EMW-C related equipment that is utilized during pipeline inspections.

Cost of revenues for the nine months ended March 31, 2009 and 2008 was $23,831 and $18,834, resulting in gross margins of 12.6 % and (41.6) %, respectively. Gross margin improved for the nine months ended March 31, 2009 compared to the same period in 2008 as the Company continues to refine its EMW-C inspection technology and methodology for interpreting the resulting data, resulting in increased efficiencies and improved gross margins. Additionally, the Company continues to train field crews who have a lower hourly rate than the Company's consulting scientists.

Research and Development

Research and development expense consists of fees paid to consulting scientists to develop the Company's inspection technologies and related hardware, salary and benefit costs for employees, and supplies and equipment utilized for the development of the EMW inspection technologies.

Research and development expense for the three months ended March 31, 2009 was $89,549 compared to $59,084 for the three months ended March 31, 2008. The increase of $30,465 is substantially attributable to an increase in fees paid to the consulting scientists during the current quarter resulting from additional resources spent developing the Company's internal pipeline inspection technology as well as refining its existing EMW-C technology.

Research and development expense for the nine months ended March 31, 2009 was $467,464, an increase of $143,200, compared to $324,264 for the nine months ended March 31, 2008. The increase from prior year is primarily due to an increase in stock compensation of $181,876 offset by a decrease in cash fees payable to the consulting scientists for time spent on research and development activities of approximately $18,000.

During the nine months ended March 31, 2009, the Company granted stock options to its consulting scientists and two employees to purchase a total of 175,000 shares of common stock at an exercise price of $1.70 per share. The fair value at the date of grant was $242,000, which is included in research and development expense. Also included in research and development expense for the nine months ended March 31, 2009 is $16,689 stock compensation related to the amortization of stock options previously granted to an employee. The remaining $208,775 included in research and development for the nine months ended March 31, 2009 consists of allocated employee salary and benefit costs, approximately $130,000 cash fees incurred for services rendered by the consulting scientists, and EMW equipment related expense.

During the nine months ended March 31, 2008, the Company granted stock options to its consulting scientists and one employee to purchase a total of 75,000 shares of common stock at an exercise price of $1.20 per share. The fair value at the date of grant was $65,750, which is included in research and development expense for the nine months ended March 31, 2008. Also included in research and development expense for the nine months ended March 31, 2008 is $11,063 stock compensation related to the amortization of stock options previously granted to

an employee. The remaining $247,451 included in research and development for the nine months ended March 31, 2008 consists of allocated employee salary and benefit costs, $148,000 cash fees incurred for services rendered by the consulting scientists as well as EMW equipment expense.

Selling Expense

Selling expense is primarily comprised of salary and benefit 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.

Selling expense for the three months ended March 31, 2009 and 2008 was $40,092 and $62,861. The decrease from prior year is substantially the result of the Company providing field demonstrations to a prospective customer during the prior year for the purpose of obtaining a revenue generating contract.

Selling expense for the nine months ended March 31, 2009 and 2008 was $124,655 and $62,861. The overall increase from prior year is substantially the result of the Company providing field demonstrations to a prospective customer for the purpose of obtaining a revenue generating contract as well as a shift in the Company focusing on selling related activities rather than research and development activities.

General and Administrative

General and administrative expense consists of costs incurred for professional fees, wages and benefits for the executive team, travel and entertainment, rent, and other administrative fees such as office supplies, postage and printing costs.

General and administrative expense for the three months ended March 31, 2009 and 2008 was $180,765 and $159,022. The increase of $21,743 is partially due to increases in travel and entertainment, professional fees and rent of approximately $3,400, $3,500, and $8,900, respectively. The increase in rent is

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substantially the result of the Company entering into an operating lease agreement in May 2008 for office, warehouse and yard space in Albuquerque, New Mexico. Monthly rent is $2,500 plus monthly triple net costs of $350.

General and administrative expense for the nine months ended March 31, 2009 and 2008 was $1,102,695 and $1,038,698. The increase of $63,997 is primarily due to increases in professional fees, rent, and employee wages and benefits expense of approximately $10,600, $19,600, and $26,000, respectively. Rent increased overall due to the lease of the Albuquerque, NM facility in May 2008 offset by a decrease in rent for the lease of the Ferndale, WA facility, which was terminated in September 2007. Employee wages and benefits increased due to increases in medical and life insurance premiums as well as board approved salary increases.

Gain (Loss) on Sale (Disposal) of Fixed Assets

The Company recorded a loss on disposal of fixed assets of $7,567 during the nine months ended March 31, 2009 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.

The Company recorded a gain on sale of fixed assets of $6,914 during the three and nine months ended March 31, 2008 as a result of proceeds received from the

sale of equipment that was previously being utilized at the Ferndale, WA facility. The Company sold equipment that was no longer being utilized and not transferred down to the Albuquerque, NM facility.

Interest Expense

Interest expense for the three months ended March 31, 2009 and 2008 was $9,603 and $3,115. The increase of $6,488 is partially the result of an increase in the accretion of the discount on the Debentures of $3,783. Additionally, during the three months ended March 31, 2009 three investors exercised their conversion right pursuant to the Debentures which resulted in the recognition of the related remaining unamortized discount of $3,690 at the conversion date as interest expense during the three months ended March 31, 2009.

Interest expense for the nine months ended March 31, 2009 and 2008 was $20,918 and $23,173. The decrease of $2,255 is substantially the impact of investors exercising their conversion right in accordance with the terms of the 2003 Offering offset by the accretion of the remaining discount on the Debentures. Since the Debentures included a beneficial conversion feature at issuance, the remaining unamortized discount of $3,690 and $14,802 at the conversion dates was recognized as interest expense during the nine months ended March 31, 2009 and 2008. Accretion of the remaining discount on the Debentures was $13,872 and $2,595 during the nine months ended March 31, 2009 and 2008.

Interest Income

Interest income for the three and nine months ended March 31, 2009 was $67 and $3,241 compared to $3,989 and $13,024 for the three and nine months ended March 31, 2008. Despite the higher average cash balance maintained during the nine months ended March 31, 2009 compared to the nine months ended March 31, 2008, interest income decreased as a result of the sharp decline in the interest rate on the Company's interest-bearing cash accounts.

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 $18,122,806 through March 31, 2009, does not have positive cash flows from operating activities, and had negative working capital of $820,369 as of March 31, 2009. 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.

At March 31, 2009, the Company had cash and cash equivalents of $421,853. 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 and proceeds received from the exercise of stock options and warrants.

Net cash used in operating activities was $822,639 for the nine months ended March 31, 2009, compared to net cash used of $798,061 for the same period in 2008. The increase of $24,578 in cash used was mainly attributable to increases in professional fees, rent and employee wages and benefits (see "Results of Operations: General and Administrative" above). These increases were offset by a decrease of $18,000 in cash fees paid to the consulting scientists.

Net cash used in investing activities was $4,634 for the nine months ended March 31, 2009, compared to net cash provided by investing activities of $6,914 during the same period in 2008. During the nine months ended March 31, 2009, the Company purchased $4,634 of contract related equipment. During the nine months ended March 31, 2008, the Company received proceeds of $6,914 from the sale of equipment that was previously being utilized at the Ferndale, WA facility. The Company sold equipment that was no longer being utilized and not transferred down to the Albuquerque, NM facility.

Net cash provided by financing activities was $955,013 for the nine months ended March 31, 2009 compared to net cash provided by financing activities of $1,212,851 for the same period in 2008. During the nine months ended March 31, 2009, the Company raised net proceeds of $899,013 pursuant to the terms of the 2007 Offering compared to $1,162,351 during the nine months ended March 31, 2008. Offsetting the decrease in cash provided by financing activities as a result of proceeds received pursuant to the 2007 Offering is the increase in proceeds from the exercise of stock options and warrants, which was $56,000 during the nine months ended March 31, 2009 and $50,500 during the same period in 2008.

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 March 31, 2009, the Company has accrued $1,054,864 related to the deferred payment of salaries and professional fees of which $800,714 is included under deferred wages and $254,150 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 $1,054,864 deferred salaries and accrued 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 and nine months ended March 31, 2009, three and five investors, respectively, exercised their conversion right and converted their Debentures in the aggregate principal amounts of $25,000 and $75,000, respectively, pursuant to the terms of the 2003 Offering. Accordingly the investors were issued an aggregate of 50,000 and 150,000 shares of common stock during the three and nine months ended March 31, 2009. The carrying value of the convertible debt was reclassified as equity upon conversion. Since the Debentures included a beneficial conversion feature at issuance the remaining unamortized discount of $3,690 and $3,690 at the conversion date was recognized as interest expense during the three and nine months ended March 31, 2009.

During the three and nine months ended March 31, 2008, none and 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 instrument included a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the nine months ended March 31, 2008.

As of March 31, 2009, accrued interest on the Debentures was $621. 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 $8,767 and $17,562 for the three and nine months ended March 31, 2009. 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 $1,294 and $17,397 for the three and nine months ended March 31, 2008. As of March 31, 2009 the carrying value of the current portion of the Debentures was $13,044, net of unamortized debt discount of $21,956.

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.

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.

During the three and nine months ended March 31, 2009 the Company raised none and $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 during the nine months ended March 31, 2009. During the three and nine months ended March 31, 2008, the Company raised $120,000 and $1,291,501 pursuant to the terms of the 2007 Offering. Accordingly, the Company issued 133,333 and 1,435,001 shares of common stock pursuant to the terms of the 2007 Offering during the three and nine months ended March 31, 2008.

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 and nine months ended March 31, 2009 the Company incurred total cash fees payable to the brokerage firms of none and $99,890. During the three and nine months ended March 31, 2008 the Company incurred total cash fees payable to the brokerage firms of $12,000 and $129,150. As of March 31, 2009, the Company was current with respect to the amount owed the brokerage firms.

Other Contractual Obligations

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

As of March 31, 2009, the Company had an outstanding loan payable to a stockholder with a principal amount of $7,500. The terms of the stockholder note are described under "Note 7 Related Parties - Note Payable to Stockholder."

As of March 31, 2009, the Company has future minimum lease payments of approximately $45,000 under its operating leases.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

See Note 4. "Summary of Significant Accounting Policies" to the Financial Statements in this Form 10-Q.

Item 4T. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial

Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded as of March 31, 2009 that the Company's disclosure controls and procedures were effective such that the information required to be disclosed in the Company's United States Securities and Exchange Commission (the "SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate 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.

None.

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.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Profile Technologies, Inc.

(Registrant)

May 14, 2009

By: /s/ Henry E. Gemino

Henry E. Gemino
Chief Executive Officer and
Chief Financial Officer

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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 3.5	Amendment to Certificate of Incorporation (incorporated by reference to Appendix A to the Company's Preliminary Proxy Statement filed with the Commission on September 18, 2008).
Exhibit 3.6	2008 Stock Ownership Incentive Plan (incorporated by reference to Exhibit B to the Company's Preliminary Proxy Statement filed with the Commission on September 18, 2008).

Exhibit 3.7	Amendment No. 1 to the Consulting Agreement dated April 1, 2009, by and between Profile Technologies, Inc. and R.F. Lafferty & Co., Inc. *
Exhibit 3.8	Form of Subscription Agreement by and between Profile Technologies, Inc. and investors in the 2009 Offering. *
Exhibit 31.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
Exhibit 32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 USC. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 . *

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*Filed herewith.