

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

PROFILE TECHNOLOGIES INC
Form 10QSB
February 14, 2003

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended:
December 31, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number
0-21151

PROFILE TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

91-1418002
(I.R.S. Employer
Identification Number)

2 Park Avenue, Suite 201
Manhasset, New York
(Address of Principal
Executive Office)

11030
(Zip Code)

516-365-1909
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the part 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 No

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: On January 31, 2003, there were 5,461,659 shares of common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No

TABLE OF CONTENTS

Description -----	Page Number -----
PART 1. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets - (Unaudited) At December 31, 2002 and At June 30, 2002.....	4
Condensed Consolidated Statements of Operations (Unaudited) - Three Months Ended and Six Months ended December 31, 2002 and 2001.....	5
Condensed Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended December 31, 2002 and 2001.....	6
Notes to Condensed Consolidated Financial Statements (Unaudited).....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
Item 3. Controls and Procedures.....	20
PART II. OTHER INFORMATION	
Item 1. Legal Proceeding.....	21
Item 2. Changes in Securities.....	21
Item 3. Defaults Upon Senior Securities.....	22
Item 4. Submission of Matters to a Vote of Security Holders.....	22
Item 5. Other Information.....	23
Item 6. Exhibits and Reports on Form 8-K.....	23
SIGNATURES.....	24
CERTIFICATIONS.....	24

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

3

PART I-- FINANCIAL INFORMATION

Item 1. Financial Statements.

PROFILE TECHNOLOGIES, INC. Condensed Balance Sheets (unaudited)		December 31, 2002	June 30, 2002
Assets		-----	-----
Current assets:			
Cash and cash equivalents		\$ 21,398	\$ 73,000
Accounts receivable		11,776	-
Prepaid expenses and other current assets		16,689	40,000
Total current assets		49,863	113,000
Equipment, net		152,200	196,000
Patents, net		103,604	145,000
Other assets		3,515	10,000
Total assets		----- \$ 309,182 -----	----- \$ 466,000 -----
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Notes payable to stockholders		\$ 260,000	\$ 123,000
Accounts payable		147,473	184,000
Accrued liabilities		165,975	113,000
Total current liabilities		573,448	420,000
Note payable to stockholder		--	15,000
Subscribed stock and warrants		--	231,000
Stockholders' equity (deficit):			
Common stock, \$0.001 par value. Authorized 15,000,000 shares as of December 31, 2002 and 10,000,000 as of June 30, 2002; issued and outstanding 5,461,659 shares at December 31, 2002 and 4,959,842 at June 30, 2002		5,462	4,000
Additional paid-in capital		8,338,300	7,983,000
Accumulated deficit		(8,608,028)	(8,188,000)
Total stockholders' equity (deficit)		(264,266)	(200,000)
Total liabilities and stockholders' equity (deficit)		----- \$ 309,182 -----	----- \$ 466,000 -----

See accompanying notes to condensed financial statements

4

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

PROFILE TECHNOLOGIES, INC.
Condensed Statements of Operations
(unaudited)

	For the Three months ended December 31,		For the Six months ended December 31,	
	2002	2001	2002	2001
Revenue	\$ 4,696	\$ 63,365	\$ 339,609	\$ 404,573
Cost of revenue	72,839	112,464	199,613	254,072
Gross profit (loss)	(68,143)	(49,099)	139,996	150,501
Operating Expenses:				
Research and development	44,740	98,720	99,392	171,563
General and administrative	241,358	249,545	445,807	540,378
Total operating expenses	286,098	348,265	545,199	711,941
Loss from operations	(354,241)	(397,364)	(405,203)	(561,440)
Interest income	--	167	6	983
Interest Expense	4,484	--	13,888	--
Net loss	\$ (358,725)	\$ (397,197)	\$ (419,085)	\$ (560,457)
Basic and diluted net loss per share	(0.07)	(0.08)	(0.08)	(0.12)
Shares used to calculate basic and diluted net loss per share	5,461,659	4,773,904	5,418,413	4,655,200

See accompanying notes to condensed financial statements

5

PROFILE TECHNOLOGIES, INC.
Condensed Statements of Cash Flows
(unaudited)

	For the six months ended December 31,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$ (419,085)	\$ (560,457)

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	86,447	84,701
Accreted interest on notes payable	10,138	--
Stock compensation	4,192	--
Changes in certain assets and liabilities:		
Accounts receivable	(11,776)	(139,853)
Contract work-in-progress	0	17,850
Prepaid expenses and other current assets	23,714	20,693
Other assets	6,643	(1,100)
Accounts payable - stockholder	--	(3,262)
Other accounts payable	(36,686)	18,275
Accrued liabilities	52,775	51,058
	-----	-----
Net cash used in operating activities	(283,638)	(512,095)
Cash flows from investing activities - Purchase of equipment	--	(26,780)
	-----	-----
Cash flows from financing activities		
Proceeds from issuance of common stock and warrants, net	105,022	358,458
Proceeds from issuance of notes payable	126,500	--
	-----	-----
Net cash provided by financing activities	231,522	358,458
	-----	-----
Net decrease in cash and cash equivalents	(52,116)	(180,417)
	-----	-----
Cash and cash equivalents at beginning of the period	73,514	306,058
	-----	-----
Cash and cash equivalents at end of the period	\$ 21,398	\$ 125,641
	-----	-----
Supplementary disclosure of non-cash financing information:		
Note payable converted to common stock		
	15,000	--
Issuance of stock and warrants previously subscribed		
	231,250	--

See accompanying notes to condensed financial statements

6

PROFILE TECHNOLOGIES, INC
December 31, 2002
Notes to Condensed Financial Statements

1. Description of Business

Profile Technologies, Inc. (the "Company") is in the business of developing and commercializing potential processes for the nondestructive, noninvasive testing of both above ground and buried pipelines for the effectiveness of pipeline cathodic protecting systems and coating integrity. The Company's future revenues

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

are currently dependent upon the market's acceptance of its sole developed process.

2. Basis of Presentation

The unaudited interim condensed financial statements and related notes of the Company have been prepared pursuant to the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such instructions. The condensed financial statements and related notes should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on form 10-KSB for the year ended June 30, 2002 (filed October 15, 2002). The information furnished reflects, in the opinion of management, all adjustments, consisting of only normal recurring items, necessary for fair presentation of the results of the interim periods presented. Interim results are not necessarily indicative of results for a full year.

3. Net Loss Per Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted 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 shareholders in each of the periods presented, basic and diluted net loss per share are the same.

Excluded from the computation of diluted loss per share for the three and six months ended December 31, 2002 are options and warrants to acquire 2,853,817 shares of common stock with a weighted-average exercise price of \$2.32 because their effect would be antidilutive. For the three and six months ended December 31, 2002, additional potential dilutive securities that were excluded from the diluted loss per share computation are the exchange rights discussed in footnote 5 that could result in options to acquire up to 299,250 shares of common stock with an exercise price of \$1.00. Excluded from the computation of diluted loss per share for the three and six months ended December 30, 2001 are options and warrants to acquire 2,224,500 shares of common stock with a weighted-average exercise price of \$3.06 because their effect would be antidilutive.

7

4. Notes Payable - Stockholders and Sale of Common Stock

On May 9, 2002, the Company entered into a \$150,000 bridge loan agreement with Murphy Evans, President and a director of the Company. Mr. Evans has currently loaned the Company \$126,000 pursuant to this bridge loan agreement. Pursuant to the terms of the agreement, once Mr. Evans loaned the Company \$125,000, the Company will cancel 150,000 warrants, currently held by Mr. Evans, with exercise prices ranging from \$3.00 per share to \$7.50 per share and issue to Mr. Evans 150,000 five-year warrants with an exercise price of \$1.05. If the Company raises \$400,000 pursuant to the Offering within 90 days of May 9, 2002, the entire loan amount will be converted into the Company's common stock in accordance with the terms of the Offering (conversion price is based on \$125,000 note /\$0.70 per equity unit.) Each equity unit is comprised of one share of common stock accompanied by a detachable five-year warrant to purchase an additional share of common stock with an exercise price of \$1.05. If the Company is unsuccessful in raising \$400,000 pursuant to the Offering within 90 days of May 9, 2002, the Company will be obligated to begin monthly loan payments of \$25,000 per month with interest accruing at 6% per annum on the unpaid balance. The Company's Board of Directors approved the terms of this loan.

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

The cancellation of the 150,000 warrants (old warrants) held by the officer with exercise prices ranging from \$3.00 to \$7.50 per share and issuance of 150,000 warrants (new warrants) with an exercise price of \$1.05 is an effective repricing and is being accounted for as a "variable plan" until such time as the warrants are exercised, expire or are forfeited. Variable plan accounting will result in intrinsic value associated with the warrants being adjusted to compensation expense based on each reporting period's ending stock value. As of December 31, 2002, no intrinsic value had been recorded related to these warrants as the stock price was below the exercise price.

As a result of the cancellation and reissuance of the warrants with a reduced exercise price, the Company recorded an additional \$15,000 discount on notes payable and an increase in additional paid-in-capital based on the difference between the fair value of the old warrants and the fair value of the new warrants. The fair value of the old and new warrants on the day of cancellation and issuance was based on an option pricing model with the following assumptions: warrant lives ranging from 5 to 5.5 years, risk free interest rates of 5.25%, volatility of 120% and a zero dividend yield. Corresponding interest expense related to the note was \$13,888 for the six months ended December 31, 2002.

As a result of the value allocated to the warrants associated with the convertible bridge note payable, the note contains an embedded contingent beneficial conversion feature, valued at \$15,000. In accordance with EITF 98-5 and 00-27, the contingent beneficial conversion feature was based on the intrinsic value and calculated as the difference between the conversion price and the fair value of the common equity into which the note is convertible. The contingent beneficial conversion feature will be recognized at the time and in the event the \$400,000 equity financing is raised and the note automatically converts. The \$15,000 amount would be accounted for as an increase in additional paid-in-capital and interest expense. Ninety days after issuance, the \$400,000 in equity financing had not been secured, however, the Company and Mr. Evans had agreed to defer commencement of the \$25,000 per month payments indefinitely.

8

In April 2002, the Company issued non-interest bearing bridge notes payable to two officers in the amounts of \$15,000 and \$7,500, convertible into 21,428 and 10,714 equity units, respectively. Each equity unit is comprised of one share of common stock accompanied by a detachable five-year warrant to purchase an additional share of common stock with an exercise price of \$1.05. To the extent that the notes are not converted before maturity, both notes are payable in full when the Company determines it has sufficient working capital to do so. The note in the amount of \$15,000 was converted to 21,428 equity units described above in July 2002.

During the six months ended December 31, 2002, the Company obtained \$106,500 in non-interest bearing bridge notes payable to three stockholders of the Company, convertible into 152,857 equity units. Each equity unit is comprised of one share of common stock accompanied by a detachable five-year warrant to purchase an additional share of common stock with an exercise price of \$1.05. To the extent that the notes are not converted before maturity, the loans are payable in full when the Company determines it has sufficient working capital to do so.

On December 26, 2002, and on January 21, 2003, Murphy Evans, the President and a director and stockholder of the Company, loaned \$20,000 and \$10,000, respectively, to the Company. These loans will accrue interest at the rate of 5% per annum, and the loans are repayable at such time as the Company has sufficient funds to do so. These loans are not convertible into equity units.

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

On March 18, 2002, the Board of Directors approved the 2002 Offering, an offering of 1,000,000 shares of the Company's common stock at a price of \$.70 per share, with attached warrants. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$1.05 per share until April 4, 2007. During the period from July 1, 2002 through December 31, 2002, the Company raised a total of \$105,022 from the issuance of 150,031 shares of its common stock and warrants in connection with this Offering.

On December 9, 2002, the shareholders approved an increase in the authorized common shares of the Company from 10,000,000 to 15,000,000.

5. Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred cumulative losses of \$8,608,028 through December 31, 2002 and had negative working capital of \$523,585 as of December 31, 2002. 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

9

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 additional 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.

To reduce cash outflows, certain of the Company's employees, officers and directors have agreed to defer a portion of their salaries and consulting fees from August 2001 until the Company has sufficient resources to pay the amounts owed or to exchange such amounts into options as described below. At December 31, 2002, the Company accrued approximately \$149,625 related to the deferred payment of the salaries and consulting fees which is included under accrued liabilities. On March 18, 2002, the Board of Directors approved a right whereby for each dollar of deferred salary and fees, the employee, officer or director could exchange their deferred amount for an option to purchase two shares of common stock with a five-year term at an exercise price of \$1.00 per share. No conversions have occurred to date. As there was no intrinsic value associated with these exchange rights, no additional compensation cost has been recorded.

6. NASDAQ Delisting

In June 2001, the Company announced that it received a Nasdaq Staff Determination, indicating that the Company failed to comply with the minimum bid price and net tangible asset/shareholder equity requirements of the Nasdaq Marketplace Rules for continued listing set forth in Marketplace Rule 4310(c)(4), and that its securities were, therefore, subject to delisting from the Nasdaq SmallCap Market. On August 10, 2001, the Nasdaq Stock Market suspended trading in the Company's common stock. Effective Monday, August 13, 2001, the Company began trading on the Over the Counter Bulletin Board under the symbol PRTK.

7. New Accounting Pronouncements

In July 2001, the FASB issued Statement No. 141, "Business Combinations", and

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Statement No. 142, "Goodwill and Other Intangible Assets". Statement No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and specifies criteria for recognizing intangible assets acquired in a business combination. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Intangible assets with definite useful lives, such as the Company's patents which have a net book value of \$145,900 as of June 30, 2002, will continue to be amortized over their respective estimated useful lives. Amortization expense related to the patents for the six months ended December 31, 2002 was \$42,296. Additional amortization expense related to the patents for the remainder of fiscal year 2003 is anticipated to be \$42,296. Amortization expense related to the patents for fiscal years 2004, 2005 and 2006 is anticipated to be \$61,308. The Company adopted the provisions of Statement No. 141 immediately and Statement No. 142 effective July 1, 2002. The impact of adopting Statement No.'s 141 and 142 were not material.

10

In October 2001, the FASB issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains many of the fundamental provisions of that Statement. Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. The Company adopted the provisions of Statement No. 144 effective July 1, 2002. The adoption of this statement did not have a material impact on the Company's financial statements.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The Company will be required to adopt this statement for any exit or disposal activities initiated after December 31, 2002. The Company does not believe the adoption of this statement will have a material impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the disclosure requirements of FIN 45 did not have a material effect on the Company's financial position, results of operations, or

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

cash flows.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The Statement is effective for the Company's interim reporting period ending December 31, 2002. The Company does not plan on adopting the transition provisions of SFAS No. 148 and will provide the required disclosures beginning in the third quarter of 2003.

11

Item 2. Management's Discussion and Analysis or Plan of Operation.

General

Since its formation in 1988, Profile Technologies, Inc., a Delaware corporation (the "Company"), has been engaged in the business of researching and developing a high speed scanning process, which is nondestructive and noninvasive, to test remotely buried and insulated pipelines for corrosion. The Company's electromagnetic wave inspection process, referred to as the Company's "Inspection EMW(SM)" or "EMW," is a patented process of analyzing the waveforms of electrical impulses in a way that extracts point-to-point information along a segment of pipeline to illustrate the integrity of the entire pipeline. This process involves sending an electrical pulse along the pipe being tested from each of two locations toward varying intersecting points between the two locations. One or more of the modified pulses is analyzed to determine whether an anomaly exists at the intersecting location.

The EMW process is designed to detect external corrosion of pipelines without the need for taking the line out of service, physically removing the insulation, or uncovering the pipe, and then visually inspecting the outside of the pipe for corrosion. The Company often can inspect the pipelines by using various access points to the pipeline that already exist for other reasons. Where such access is not already available, the Company's technology permits inspection of pipelines with only a very minimal amount of disturbance of the covering or insulation that is present on the pipeline. Finally, the Company's technology permits an inspection of the entire pipeline, as opposed to other technologies, which only conduct inspections at the points selected for the testing.

The Company's data interpretation process has been largely automated, and the Company hopes to be able to complete this automation in the near future. The Company's business model and strategy is heavily dependent on its ability to automate the data interpretation process and fully implement its new technology. If the Company is unable to automate the process and fully implement its technology, the Company may not be able to implement a licensing and joint venture business model and may not be able to secure additional contracts. As a result, such failure may have a material adverse effect on the business and financial condition of the Company.

Sales

The Company derives revenue solely from the sale of the EMW inspection technology service. The Company relies upon several employees, including the Chief Executive Officer, the Chief Operating Officer, the Vice President - Field

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Operations, for the Company's sales functions. The Company relies solely upon the employees of the Company to conduct its sales activities.

During the six months ended December 31, 2002, all of the Company's sales were attributable to two customers. These customers individually accounted for 64% and 36%, and 36% and 52%, of net sales during the six months ended December 31, 2002 and 2001, respectively.

12

Marketing

The Company's sales and marketing strategy includes positioning the Company's EMW technology as the method of choice to detect pipeline corrosion where the pipelines are either inaccessible to other inspection tools or much more costly to inspect with tools other than Profile's EMW inspection. Pending completion of designed improvements to its buried pipe inspection equipment and procedures, the Company intends to concentrate its marketing efforts on above-grade insulated pipe such as is common in refineries and chemical plants and on encased road and stream crossings.

Upon completion of its redesigned buried pipe product, which the Company plans to accomplish during the fiscal year 2003, the Company intends to refocus on the natural gas utility and pipeline market, particularly in so-called "high consequence areas" (e.g., densely populated areas).

There can be no assurance that the Company will be successful in concentrating its marketing efforts for the EMW technology on above-grade insulated pipe or in the "high consequence areas" of the natural gas utility and pipeline market.

Research and Development

On January 13, 2003, the Company entered into a research agreement with one of its major oil company customers. The Company believes that this agreement will enable the Company to apply the customer's patented pattern recognition technology to the Company's EMW technology data in ways that will result in increased accuracy in identifying EMW anomalies that are indicative of corrosion; identify, if possible, other data patterns that will permit a more precise grading of degrees and types of corrosion indicated by varying EMW anomalies, and more fully automate the Company's data interpretation process. While the Company has historically achieved a high degree of accuracy in identifying corrosion, the Company and its customer are optimistic that significant, additional technological improvements can be achieved through the application of state-of-the-art pattern recognition technology. There can be no assurance, however, that the Company and its customer will be able to achieve these additional technological improvements to the EMW technology or that the Company will be able to secure additional revenue generating contracts.

Since January 2002, the Company has been engaged in a comprehensive program to improve its hardware, software and data acquisition methods. Management believes that this effort has provided the Company with the ability to pursue this research opportunity with its customer.

13

Critical Accounting Estimates and Policies

The discussion and analysis of financial condition and results of operations are based upon the Company's financial statements, which have been

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including contract revenue recognition and impairment of long-lived assets. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form its basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions and conditions, and such variations may be adverse.

The Company recognizes revenue from service contracts using the percentage-of-completion method of contract 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. Historically, the majority of the Company's revenue has been recognized based on the completion of measurable units. 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. The Company records claims for additional compensation on contracts upon revision of the contract to include the amount to be received for the additional work performed. 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.

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability by determining whether the balance can be recovered through forecasted future operations. The amount of impairment, if any, is measured based on projected future results using a discount rate reflecting the Company's assumed average cost of funds.

Results of Operations

The Company's operating results depend exclusively on its ability to market its EMW inspection technology. If the Company is not able to automate completely the EMW inspection process and fully implement its new technology, the Company may not be able to obtain future contracts to sell or to license its EMW technology. Since the Company's revenues are derived solely from the marketing and sale of its EMW technology, any failure to obtain future contracts will have a material adverse effect on the business and financial condition of the Company.

14

Revenue decreased to \$4,696 for the three months and \$339,609 for the six months ended December 31, 2002, compared to \$63,365 for the three months and \$404,573 for the six months ended December 31, 2001. This decrease was attributable to the fact that the Company left the North Slope of Alaska earlier than it did in the prior year due to the cancellation of approximately two weeks of work for one of the Company's crews. The events surrounding this cancellation are described in detail below in "Liquidity and Capital Resources."

Cost of revenue decreased to \$72,839 for the three months and \$199,613 for the six months ended December 31, 2002, compared to \$112,464 for the three

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

months and \$254,072 for the six months ended December 31, 2001. The decrease for the three and six months ended December 31, 2002 is due to a reduction in revenue-generating contracts performed on the North Slope of Alaska.

Gross loss was \$68,143 for the three months, and gross profit was \$139,996, for the six months ended December 31, 2002, compared to a gross loss of \$49,099 for the three months, and gross profit of \$150,501, for the six months ended December 31, 2001. The decrease in gross profit for the six months ended December 31, 2002 as compared to the same period in the prior year is primarily due to the shortened period of operations on the North Slope as mentioned above.

Research and development expenses decreased to \$44,740 for the three months and \$99,392 for the six months ended December 31, 2002, compared to \$98,720 for the three months and \$171,563 for the six months ended December 31, 2001. The decrease for the three and the six month period ended December 31, 2002, compared to the three and the six month period ended December 31, 2001, was due to a reduction in the number of the Company's employees, and certain employees spending less time on research and development and more time on revenue-generating contracts.

General and administrative expenses decreased to \$241,358 for the three months and \$445,807 for the three and the six months ended December 31, 2002, compared to \$249,545 for the three months and \$540,378 for the six months ended December 31, 2001. The decrease for the six months ended December 31, 2002 is due to a reduction in discretionary expenditures, including a reduction in the number of the Company's employees and the closure of two of the Company's offices in the fiscal year ended June 30, 2002.

Loss from operations decreased to \$354,241 for the three months and \$405,203 for the six months ended December 31, 2002, compared to \$397,364 for the three months and \$561,440 for the six months ended December 31, 2001. The decrease for the three and six months ended December 31, 2002 compared to the same period in the prior year is due to a higher gross margin on contracts performed as well *as a reduction in operating expenses as discussed above. As a result of the Company's cost structure, including a significant amount of fixed costs, fluctuations in revenue will significantly impact the Company's gross margin and loss from operations.

Interest income was \$0 for the three months and \$6 for the six months ended December 31, 2002, down from \$167 for the three months and \$983 for the six months ended December 31, 2001. This decrease was the result of declining cash and cash equivalent balances as the Company used these liquid resources to sustain its commercial operations and research and development activities and lower rates of return on invested funds.

15

Interest expense was \$4,484 for the three months and \$13,888 for the six months ended December 31, 2002, up from \$0 for the three months and \$0 for the six months ended December 31, 2001. The increase is a result of the interest accrued in relation to the Evans Loan described below in "Liquidity and Capital Resources."

Liquidity and Capital Resources

The Company has incurred cumulative losses of \$8,608,028 through December 31, 2002 and had negative working capital of \$523,585 as of December 31, 2002. During the six months ended December 31, 2002, the Company used \$283,638 of cash in operating activities primarily as a result of net losses. The Company's cash and cash equivalents as of December 31, 2002 were \$21,398. These conditions raise substantial doubt about the Company's ability to continue as a going

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

concern. Management recognizes that in order to meet the Company's capital requirements and continue to operate, additional financing will be necessary.

The Company is evaluating alternative sources of financing, including seeking industry-partner investment through joint venture or other possible arrangements, to improve its cash position and is also undertaking efforts to raise capital from more conventional sources. Further, the Company is making on-going efforts to reduce its on-going expense requirements including payroll. If the Company is unable to raise additional capital or secure additional revenue contracts and generate positive cash flow, the Company will be unable to continue as a going concern.

For the year ended June 30, 2002, the Company raised \$594,208 from a private placement of its common stock, with attached warrants, and \$126,000 from a loan from its President, Murphy Evans as described further below. In addition, the Company raised \$22,500 from loan proceeds from Henry Gemino, its Chief Executive Officer, Chief Financial Officer and a director and stockholder of the Company, and G.L. Scott, its former Chairman of the Board of Directors, as described below.

On March 18, 2002, the Board of Directors approved the 2002 Offering, an offering of 1,000,000 shares of the Company's common stock at a price of \$.70 per share, with attached warrants. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$1.05 per share until April 4, 2007. During the period from July 1, 2002 through September 30, 2002, the Company raised a total of \$105,022 from the issuance of 150,031 shares of its common stock and warrants in connection with this Offering. There can be no assurance that the Company will be able to raise additional equity capital from this Offering.

In July, 2002, Henry Gemino, the Chief Executive Officer, Chief Financial Officer and a director and stockholder of the Company, elected to convert a \$15,000 note payable into 21,428 equity units. Each equity unit is comprised of one share of the Company's common stock, with a detached 5 year warrant to purchase one additional share of the Company's common stock at an exercise price of \$1.05 per share.

16

The Company's contractual obligations consist of commitments under operating leases, deferred salary and fees, and repayment of loans payable to certain officers, directors and stockholders. Future minimum rental payments on the operating leases are less than \$15,000 for the remainder of the fiscal year 2003, with no further contractual obligations thereafter, although the Company expects to continue to incur costs on leased properties, as the Company has extended such leases in the past or will use alternate facilities. As of December 31, 2002, deferred salary and fees were equal to \$149,625, and the salaries and fees will continue to be deferred until the Company has sufficient resources to pay the amounts owed, or the employees, officers, or directors exchange such amounts as described below. On March 18, 2002, the Board of Directors approved a right under which any such employee, officer or director could exchange each dollar of his or her deferred salary or fees for an option to purchase two shares of the Company's common stock which may be exercised over a five-year term at an exercise price of \$1.00 per share. As of December 31, 2002, no conversions have occurred.

As of December 31, 2002, the Company had outstanding loans payable to certain officers, directors and stockholders with principal amounts, in the aggregate, equal to \$260,000. The terms of the loans are described below.

On May 9, 2002, the Company entered into the Evans Loan, a \$150,000 bridge

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

loan agreement with Murphy Evans, President and a director and stockholder of the Company. Mr. Evans has currently loaned the Company \$126,000, pursuant to the Evans Loan. Under to the terms of the Evans Loan, once Mr. Evans loaned the Company \$125,000, the Company is obligated to cancel 150,000 warrants, currently held by Mr. Evans, with exercise prices ranging from \$3.00 per share to \$7.50 per share, and issue to Mr. Evans 150,000 five-year warrants with an exercise price of \$1.05. If the Company had raised \$400,000 pursuant to the Offering within 90 days of May 9, 2002, the entire loan amount would have been converted into the Company's common stock in accordance with the terms of the Offering. However, the Company raised only \$346,250, not \$400,000, under the Offering within 90 days of May 9, 2002. As a result, the Company is obligated to commence making monthly loan payments to Mr. Evans in the amount of \$25,000 per month, with interest accruing at 6% per annum on the unpaid principal balance of the Evans Loan. The Evans Loan has a discounted carrying value of \$126,000 as of December 31, 2002. The Company's Board of Directors approved the terms of the Evans Loan. As of December 31, 2002, the Company had not made any, and Mr. Evans has made no demand for, payments under the Evans Loan.

During the six months ended December 31, 2002, the Company entered into the Subsequent Evans Loan, representing certain non-interest bearing bridge loans in the aggregate amount of \$57,000 also payable to Murphy Evans. The terms of the Subsequent Evans Loan provide for payment at such time as the Company determines it has sufficient working capital to repay the principal balance of the Subsequent Evans Loan and is convertible into 81,428 equity units at any time prior to payment. Each equity unit is comprised of one share of the Company's common stock, with a detached 5-year warrant to purchase one additional share at an exercise price of \$1.05 per share. The Subsequent Evans Loan is exempt from registration under the Securities Act pursuant to Section 4(2) thereof. As of December 31, 2002, Mr. Evans had not converted the Subsequent Evans Loans into equity units.

17

During the six months ended December 31, 2002, the Company also entered into two non-interest bearing bridge loans in the respective principal amounts of \$40,000 and \$10,000 (the "Shareholder Loans") payable to two shareholders of the Company. The terms of the Shareholder Loans provide for payment at such time as the Company determines it has sufficient working capital to repay the principal balance of the Shareholder Loans. The Shareholder Loans are convertible into 57,142 and 14,286 equity units, respectively, at any time prior to payment. Each equity unit is comprised of one share of the Company's common stock, with a detached 5-year warrant to purchase one additional share at an exercise price of \$1.05 per share. Each of the Shareholder Loans is exempt from registration under the Securities Act pursuant to Section 4(2) thereof. As of December 31, 2002, neither shareholder has converted either Shareholder Loan into equity units.

The Company also received a non-interest bearing bridge loan in April, 2002, in the principal amount of \$7,500 (the "Scott Loan") payable to G.L. Scott, the former Chairman of the Board of Directors and stockholder of the Company. The Scott Loan is payable at such time as the Company determines that it has sufficient working capital to repay the principal balance of the Scott Loan and is convertible into 10,714 equity units at any time prior to payment. Each equity unit is comprised of one share of the Company's common stock, with a detached 5-year warrant to purchase one additional share at an exercise price of \$1.05 per share. On September 29, 2002, Mr. Scott died unexpectedly from a stroke. As of December 31, 2002, neither Mr. Scott nor his estate had converted the Scott Loan into equity units.

On December 26, 2002 and on January 21, 2003, Murphy Evans, the President and a director and stockholder of the Company, loaned \$20,000 and \$10,000,

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

respectively, to the Company (collectively, the "Non-Convertible Evans Loans"). The terms of the Non-Convertible Evans Loans provide for payment at such time as the Company determines it has sufficient working capital to repay the Non-Convertible Evans Loans. Interest will accrue on the Non-Convertible Evans Loans at a rate of 5% per annum. The Non-Convertible Evans Loans are not convertible into equity units.

On September 25, 2002, the Company received notice from one of its Alaska customers that the results of a blind test on large diameter above-grade pipe were not satisfactory. Specifically, the customer indicated that, although the Company located all areas of corrosion, the severity of the anomalies reported did not match the severity of corrosion found on the pipe. As a result, the customer canceled approximately two weeks of remaining work for one of the Company's crews, resulting in the loss of approximately \$47,000 in expected, but not accrued, revenue.

The results that caused the customer the most concern were derived from data that was inadvertently taken by the Company using a faulty piece of grounding equipment. In the report provided to the customer, the Company identified the grounding problem and recommended that the pipe should be re-tested prior to verification.

The Company has recently completed and submitted a detailed, written explanation of the equipment problem for the customer, including the steps already taken by the Company to preclude the recurrence of the equipment problem. The Company's service contract with the customer is still in place, and the Company is hopeful that it will be included in the customer's inspection plans for next year, although there can be no assurance that the customer will engage the Company to provide inspection services at any time in the future.

18

The Company currently requires additional cash to sustain existing operations and to meet current obligations (including those described above) and the Company's ongoing capital requirements. The continuation of the Company's operations is dependent in the short term upon its ability to obtain additional financing and to secure additional contracts, and, in the long term, to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability.

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 generate 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.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB 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 for each successive phase of its growth, 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'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.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required under Rule 13a-15 and Rule 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90 days prior to the filing date of this Quarterly Report, the Company completed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was completed by the Chief Executive Officer, who also serves as the Company's Chief Financial Officer, and the Chief Operating Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Operating Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings with the

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Commission. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Operating Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls.

There have been no changes in internal controls or, to the Company's knowledge, in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II-- OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not a party to any pending or threatened legal proceedings.

Item 2. Changes in Securities.

On March 18, 2002, the Board of Directors approved an offering of 1,000,000 shares of the Company's common stock at a price of \$0.70 per share, with attached warrants (the "2002 Offering"). Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$1.05 per share until April 4, 2007. The Company did not incur or pay any commissions with respect to offers and sales of securities under the 2002 Offering. As of December 31, 2002, the Company had raised a total of \$351,272 from the 2002 Offering. All of the investors were accredited investors. The 2002 Offering is exempt from registration under the Securities Act pursuant to Section 4(2) thereof and Rule 506 promulgated thereunder. There can be no assurance that the Company will be able to raise additional equity capital from this Offering.

On May 9, 2002, the Company entered into a \$150,000 bridge loan agreement with Murphy Evans, the President and a director and stockholder of the Company (the "Evans Loan"). Mr. Evans has currently loaned the Company \$126,000, pursuant to the Evans Loan. Under the terms of the Evans Loan, once Mr. Evans loaned the Company \$125,000, the Company is obligated to cancel 150,000 warrants, currently held by Mr. Evans, with exercise prices ranging from \$3.00 per share to \$7.50 per share, and issue to Mr. Evans 150,000 five-year warrants with an exercise price of \$1.05. If the Company had raised \$400,000 pursuant to the Offering within 90 days of May 9, 2002, the entire loan amount would have been converted into the Company's common stock in accordance with the terms of the Offering. However, the Company raised only \$346,250, not \$400,000, under the Offering within 90 days of May 9, 2002. As a result, the Company is obligated to commence making monthly loan payments to Mr. Evans in the amount of \$25,000 per month, with interest accruing at 6% per annum on the unpaid principal balance of the Evans Loan. The Company's Board of Directors approved the terms of the Evans Loan. The Evans Loan is exempt from registration under the Securities Act pursuant to Section 4(2) thereof. As of December 31, 2002, the Company has not made any, and Mr. Evans has made no demand for, payments under the Evans Loan.

During the six months ended December 31, 2002, the Company entered into two non-interest bearing bridge loans in the respective principal amounts of \$40,000

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

and \$10,000 (the "Shareholder Loans") payable to two shareholders of the Company. The terms of the Shareholder Loans provide for payment at such time as the Company determines it has sufficient working capital to repay the principal balances of the Shareholder Loans. The Shareholder Loans are convertible into 57,142 and 14,286 equity units, respectively, at any time prior to payment. Each equity unit is comprised of one share of the Company's common stock, with a detached 5-year warrant to purchase one additional share at an exercise price of \$1.05 per share. Each of the Shareholder Loans is exempt from registration under the Securities Act pursuant to Section 4(2) thereof. As of December 31, 2002, neither shareholder has converted either Shareholder Loan into equity units.

21

During the six months ended December 31, 2002, the Company entered into certain non-interest bearing bridge loans in the aggregate amount of \$57,000 (the "Subsequent Evans Loan") payable to Murphy Evans, the President and a director and shareholder of the Company. The terms of the Subsequent Evans Loan provide for payment at such time as the Company determines it has sufficient working capital to repay the principal balance of the Subsequent Evans Loan and is convertible into 81,428 equity units at any time prior to payment. Each equity unit is comprised of one share of the Company's common stock, with a detached 5-year warrant to purchase one additional share at an exercise price of \$1.05 per share. The Subsequent Evans Loan is exempt from registration under the Securities Act pursuant to Section 4(2) thereof. As of December 31, 2002, Mr. Evans had not converted the Subsequent Evans Loan into equity units.

On December 26, 2002 and on January 21, 2003, Murphy Evans, the President and a director and stockholder of the Company, loaned \$20,000 and \$10,000, respectively, to the Company (collectively, the "Non-Convertible Evans Loans"). The terms of the Non-Convertible Evans Loans provide for payment at such time as the Company determines it has sufficient working capital to repay the Non-Convertible Evans Loans. Interest will accrue on the Non-Convertible Evans Loans at a rate of 5% per annum. The Non-Convertible Evans Loans are not convertible into equity units.

Item 3. Defaults Upon Senior Securities

None.

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

The Annual Meeting of Stockholders (the "Annual Meeting") of the Company was held on December 9, 2002

At the Annual Meeting, 4,702,862 shares were present in person or by proxy. The following is a summary and tabulation of the matters that were voted upon at the Annual Meeting:

Proposal I.

The election of directors each for a term of one year:

	For ---	Withheld Authority -----
Henry E. Gemino	4,578,909	123,953
Murphy Evans	4,579,709	123,153
John T. Kuo	3,901,609	801,253

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Charles Christenson	4,587,009	115,853
William A. Krivsky	4,587,009	115,853

Proposal II.

An amendment to the Company's Articles of Incorporation increasing the authorized shares of the Company's common stock from 10,000,000 shares to 15,000,000 shares:

For ---	Against -----	Abstentions -----
4,619,118	77,694	6,050

22

Item 5. Other Information.

On September 29, 2002, G.L. Scott, the Company's Chairman of the Board of Directors, tragically and unexpectantly died from a stroke. As of February 14, 2003, the Board of Directors has not appointed a successor Chairman of the Board.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

- 10.1 Research Agreement dated January 6, 2003, between Profile Technologies, Inc. and Philips Petroleum Company.
- 99.1 Certification under Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certification under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

23

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROFILE TECHNOLOGIES, INC.

(Registrant)

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

Date: February 14, 2003

/s/ Henry E. Gemino

Henry E. Gemino
Chief Executive Officer and
Chief Financial Officer

CERTIFICATION

I, Henry E. Gemino, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Profile Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within the entity, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within ninety (90) days prior to the filing of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ Henry E. Gemino

Henry E. Gemino
Chief Executive Officer and
Chief Financial Officer

CERTIFICATION

I, Philip L. Jones , certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Profile Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within the entity, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within ninety (90) days prior to the filing of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Edgar Filing: PROFILE TECHNOLOGIES INC - Form 10QSB

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ Philip L. Jones

Philip L. Jones
Chief Operating Officer