PROFILE TECHNOLOGIES INC
Form 10-Q
November 05, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 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: 16,637,741 shares of Common Stock as of November 2, 2009.

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PROFILE TECHNOLOGIES, INC.
FORM 10-Q
For the Quarterly Period Ended September 30, 2009

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

PROFILE TECHNOLOGIES, INC.

BALANCE SHEETS
SEPTEMBER 30, 2009 AND JUNE 30, 2009
(Unaudited)

	September 30, 2009	June 30, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 247,721	$ 270,90
Accounts receivable	42,417	19,22
Inventory	1,211	--
Prepaid expenses and other current assets	11,551	8,57
Total current assets	302,900	298,70
Equipment, net of accumulated depreciation of $2,510 and $1,931	2,124	2,70
Other assets	12,050	13,05
Total assets	$ 317,074	$ 314,46
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 178,844	$ 165,71
Note payable to stockholder	7,500	7,50
Current portion of convertible debt, net of unamortized discount of $0 and $13,641	25,000	21,35
Deferred wages	820,734	810,72
Accrued professional fees	290,150	268,25
Accrued interest	429	43
Total current liabilities	1,322,657	1,273,98
Commitments and contingencies		
Stockholders' deficit		
Common stock, $0.001 par value: 40,000,000 shares authorized, 16,339,677 and 15,961,012 shares issued and outstanding at September 30, 2009 and June 30, 2009	16,340	15,96
Common stock issuable; 76,398 and 68,618 shares	76	6
Additional paid-in capital	17,812,287	17,474,62
Accumulated deficit	(18,834,286)	(18,450,17
Total stockholders' deficit	(1,005,583)	(959,51
Total liabilities and stockholders' deficit	$ 317,074	$ 314,46

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

PROFILE TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Three Months Ended September 30,	
	2009	2008
Revenue	$ 42,417	$ 17,183
Cost of revenue	(53,168)	(11,357)
Gross margin	(10,751)	5,826
Operating expenses		
Research and development	115,291	82,433
Selling	51,419	22,450
General and administrative	192,721	205,308
Total operating expenses	359,431	310,191
Loss from operations	(370,182)	(304,365)
Other income (expense)		
Gain (loss) on sale (disposal) of equipment	300	(7,567)
Interest expense	(14,252)	(4,994)
Interest income	19	2,482
Total other income (expense)	(13,933)	(10,079)
Net loss	$ (384,115)	$ (314,444)
Net loss per share - basic and diluted	$ (0.02)	$ (0.02)
Weighted average shares outstanding used to calculate basic and diluted net loss per share	16,249,550	15,131,683

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

PROFILE TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND THE YEAR ENDED JUNE 30, 200
(Unaudited)

	Common Stock	Com

	Shares	Amount	Sha
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	100,000	100	
Issuance of stock options for services to consultants	--	--	
Issuance of 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 related to the 2009 Offering	141,867	142	
Common stock issuance costs related to the 2009 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 for year ended June 30, 2009	--	--	
Balance at June 30, 2009	15,961,012	15,961	
Issuance of common stock previously reported as "issuable"	56,666	57	(
Issuance of stock options for services to consultants	--	--	
Stock compensation amortization expense	--	--	
Issuance of common stock related to the 2009 Offering	301,999	302	
Common stock issuance costs related to the 2009 Offering	--	--	
Issuance of common stock upon conversion of convertible debt to equity	20,000	20	
Net loss for three months ended September 30, 2009	--	--	
Balance at September 30, 2009	16,339,677	$ 16,340	

Table continues below.

	Additional Paid-in Capital	Accumulated Deficit	T Stoc De
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	2,587	--	
Issuance of stock options for services to consultants	125,400	--	
Issuance of stock options for services to employees and Board of Directors	668,300	--	
Stock compensation amortization expense	22,251	--	
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 related to the 2009 Offering	178,481	--	
Common stock issuance costs related to the 2009 Offering	(17,868)	--	
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 for year ended June 30, 2009	--	(2,043,973)	(2

Balance at June 30, 2009	17,474,622	(18,450,171)	
Issuance of common stock previously reported as "issuable"	--	--	
Issuance of stock options for services to consultants	25,666	--	
Stock compensation amortization expense	5,563	--	
Issuance of common stock related to the 2009 Offering	329,436	--	
Common stock issuance costs related to the 2009 Offering	(32,980)	--	
Issuance of common stock upon conversion of convertible debt to equity	9,980	--	
Net loss for three months ended September 30, 2009	--	(384,115)	
Balance at September 30, 2009	$ 17,812,287	$(18,834,286)	$ (1

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

PROFILE TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	Three Sep
	2009
Cash flows from operating activities	
Net loss	$(384,11
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	57
Loss (gain) on disposal (sale) of fixed assets	(30
Accreted discount on convertible debt	9,95
Amortization of convertible debt discount included in interest expense	3,69
Amortization of debt issuance costs	--
Equity issued for services to consultants	25,66
Stock compensation amortization expense	5,56
Changes in operating assets and liabilities:	
Increase in accounts receivable	(23,19
Increase in inventory	(1,21
Increase in prepaid expenses and other current assets	(2,97
Decrease in other assets	1,00
Increase in accounts payable	13,12
Increase in deferred wages	10,01
Increase in accrued professional fees	21,90
Decrease in accrued interest	(
Net cash used in operating activities	(320,30
Cash flows from investing activities	
Purchase of equipment	--
Proceeds from sale of equipment	30
Net cash provided by (used in) investing activities	30

Cash flows from financing activities	
Proceeds from issuance of common stock	329,80
Common stock issuance costs	(32,98
Proceeds from exercise of warrants	--
Net cash provided by financing activities	296,82
(Decrease) increase in cash and cash equivalents	(23,18
Cash and cash equivalents at beginning of period	270,90
Cash and cash equivalents at end of period	$ 247,72
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 61
Convertible debt converted into 20,000 and 100,000 shares of common stock during the three months ended September 30, 2009 and 2008	$ 10,00

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

PROFILE TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS

September 30, 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 its research and development of new applications for its patented technology, including inspecting pipes for internal corrosion and other anomalies and direct buried pipes for external corrosion and other anomalies.

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 $18,834,286 through September 30, 2009, does not have positive cash flows from operating activities, and had negative working capital of $1,019,757 as of September 30, 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 September 30, 2009 and June 30, 2009, the results of operations for the three months ended September 30, 2009 and 2008 and cash flows for the three months ended September 30, 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 2009 Annual Report on Form 10-K.

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 2009 Annual Report on Form 10-K.

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. Research and development costs are expensed when incurred, except for nonrefundable advance payments for future research and development activities which are capitalized and recognized as expense as the related services are performed.

During the three months ended September 30, 2009 and 2008, the Company incurred $115,291 and $82,433 on research and development activities.

Stock-based Compensation

The Company measures all employee stock-based compensation awards using a fair value method on the date of grant and recognizes such expense in its financial statements over the requisite service period. The Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding the warrant and option lives, expected volatility, and risk free interest rates. See Note 5. "Stock Based Compensation, Stock Options and Warrants" for additional information on the Company's stock-based compensation plans.

Vendor Concentration

Consultant Scientist Fees

The Company relies on the expertise of two consultant scientists to facilitate the development and testing of the Company's hardware and software. These scientists are also instrumental in compiling and interpreting the data captured during the use of the hardware and software. The loss of the specialized knowledge provided by the scientists could have an adverse effect on the ability of the Company to successfully market its hardware and software. During the three months ended September 30, 2009 and 2008, the Company incurred fees for work performed by the scientists of $90,060 and $52,043.

As of September 30, 2009, the Company owed the consultant scientists a total of $100,161, which is included in accounts payable.

Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals, a replacement of FASB Statement No. 162" (SFAS 168). This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards

Codification ("ASC"), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company adopted SFAS 168, effective July 1, 2009, the beginning of its first quarter ended September 30, 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

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 Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding the warrant and option lives, expected volatility, and risk free interest rates.

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. The Company uses the "simplified" method for determining the expected term of its "plain vanilla" stock options. The Company recognizes compensation expense for only the portion of stock options that are expected to vest. Therefore, the Company applies an estimated forfeiture rate that is derived from historical employee termination data and adjusted for expected future employee turnover rates. To date, the Company has not experienced any forfeitures. If the actual number of forfeitures differs from those estimated by the Company, additional adjustments to compensation expense may be required in future periods. The Company's stock price volatility, option lives and expected forfeiture rates involve management's best estimates at the time of such determination, all of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

The following table sets forth the share-based compensation cost resulting from stock option grants that was recorded in the Company's Statements of Operations for the three months ended September 30, 2009 and 2008:

	Three Months Ended September 30,	
	2009	2008
Research and development	$ 5,563	$ 5,563
Selling	25,666	--
Total	$31,229	$ 5,563

A summary of the Company's stock option activity for the three months ended September 30, 2009 and the year ended June 30, 2009 follows:

	Number Of Stock Options (1)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at June 30, 2008	3,755,000	$ 1.11	
Grants	610,000	1.68	
Exercises	(40,000)	0.70	
Expirations	(90,000)	0.66	
Outstanding at June 30, 2009 and September 30, 2009 (2)	4,235,000	$ 1.20	5.76 years
Exercisable at September 30, 2009	4,147,500	$ 1.20	5.81 years

	==========
Available for grant at September 30, 2009 (3)	2,890,000
	==========

(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) The weighted average remaining contractual term and aggregate intrinsic value are as of September 30, 2009.

(3) 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 fourth 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 September 30, 2009. This amount changes based on the fair market value of the Company's common stock.

As of September 30, 2009, the Company had $51,894 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 1.8 years.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2009:

	Stock Options Outstanding			Stock Options Exerci	
Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Remainin Contractu Life (Year
$ 0.86	435,000	7.12	$ 0.86	435,000	7.12
0.95	140,000	7.12	0.95	140,000	7.12
1.05	150,000	2.16	1.05	125,000	2.01
1.12	285,000	4.71	1.12	285,000	4.71
1.13	50,000	3.42	1.13	12,500	3.42
1.16	1,850,000	4.70	1.16	1,850,000	4.70
1.20	350,000	6.56	1.20	350,000	6.56
1.21	150,000	6.20	1.21	150,000	6.20
1.26	35,000	9.17	1.26	35,000	9.17
1.30	50,000	4.73	1.30	25,000	4.73
1.32	200,000	8.13	1.32	200,000	8.13
1.50	15,000	7.95	1.50	15,000	7.95
1.70	390,000	7.72	1.70	390,000	7.72
1.87	135,000	9.13	1.87	135,000	9.13
$ 0.50 - $ 1.87	4,235,000	5.76	$ 1.20	4,147,500	5.81

Warrants

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

A summary of the Company's warrant-related activity for the three months ended September 30, 2009 and the year ended June 30, 2009 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 June 30, 2009 and September 30, 2009	8,111,028	$ 0.75
Exercisable at September 30, 2009	8,111,028	$ 0.75

The following table summarizes information about warrants outstanding, all of which are exercisable at September 30, 2009:

Exercise Prices	Number of Warrants Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$ 0.60	439,600	1.87	$ 0.60
0.75	7,100,000	1.65	0.75
0.86	450,000	7.12	0.86
1.00	50,000	2.53	1.00
1.05	71,428	2.61	1.05
$ 0.60-1.05	8,111,028	1.98	$ 0.75

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 months ended September 30, 2009 and 2008, because their effect would be antidilutive,

are stock options and warrants to acquire 12,346,028 and 11,866,028 shares of common stock with weighted-average exercise prices of $0.91 and $0.86 per share, respectively. Also excluded from the computation of diluted net loss per share for the three months ended September 30, 2009 and 2008 are 50,000 and 120,000 shares of common stock that may be issued if investors exercise their conversion right under the Debentures related to the 2003 Offering as discussed in Note 8. "Convertible Debt" because their effect would be antidilutive.

For the three months ended September 30, 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 September 30, 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.

Following is the computation of basic and diluted net loss per share for the three months ended September 30, 2009 and 2008:

	Three Months Ended September 30,	
	2009	2008
Numerator - net loss	$ (384,115)	$ (314,444)
Denominator - weighted average number of common shares outstanding	16,249,550	15,131,683
Basic and diluted net loss per common share	$ (0.02)	$ (0.02)

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 months ended September 30, 2009, one investor exercised his conversion right and converted his Debenture in the principal amount $10,000, pursuant to the terms of the 2003 Offering. Accordingly the investor was issued 20,000 shares of common stock. 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 at the conversion date was recognized as interest expense during the three months ended September 30, 2009.

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

As of September 30, 2009, accrued interest on the Debentures was $429. 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 $13,641 and $3,365 for the three months ended September 30, 2009 and 2008. As of September 30, 2009 there was one outstanding Debenture, which is considered current, with a carrying value of $25,000.

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 September 30, 2009, the Company has accrued $1,110,884 related to the deferred payment of

salaries and professional fees of which $820,734 is included under deferred wages and $290,150 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 $1,110,884 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 months ended September 30, 2008, the Company raised $998,903 and issued 1,109,885 shares of common stock pursuant to the terms of the 2007 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2007 Offering. Pursuant to the terms of the agreement with the brokerage firms, the Company paid the brokerage firms a ten percent cash commission on all funds that the brokerage firm helped raise. Accordingly, during the three months ended September 30, 2008, the Company incurred total fees payable to the brokerage firms of $99,890. As of September 30, 2009, the Company was current with respect to the amount owed the brokerage firms.

Note 11. 2009 Private Placement Equity Offering

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. On October 2, 2009, the Board determined that it was in the best interests of the Company to extend the termination date of the 2009 Offering and voted to extend the expiration date to December 2, 2009.

During the three months ended September 30, 2009, the Company raised gross proceeds of $329,802 under the terms of the 2009 Offering. Accordingly, the Company issued 366,445 shares of common stock pursuant to the terms of the 2009 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2009 Offering. Pursuant to the terms of the agreements with the brokerage firms, the Company owes the brokerage firms a ten percent cash commission on all

funds that the brokerage firm helps raise. Accordingly, during the three months

ended September 30, 2009, the Company incurred total fees payable to the brokerage firms of $32,980. As of September 30, 2009, the Company owed the brokerage firms $6,080 of which $5,080 is included in accounts payable and $1,000 in accrued professional fees.

Note 12. Subsequent Events

The Company has evaluated subsequent events through November 5, 2009, which is the date on which these financial statements were issued. There have not been any events subsequent to September 30, 2009, other than the extension of the 2009 Offering and proceeds received pursuant to the 2009 Offering and the conversion of the Debenture, as disclosed in the following paragraphs, that would require additional disclosure in the financial statements or that would have a material impact on the Company's financial position, results of operations, or cash flows for the three months ended September 30, 2009 and 2008.

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. On October 2, 2009, the Board determined that it was in the best interests of the Company to extend the termination date of the 2009 Offering and voted to extend the expiration date to December 2, 2009. See Note 11. "2009 Private Placement Equity Offering".

Subsequent to September 30, 2009, and as of the date of this report, the Company has raised gross proceeds of $154,500 from the sale of 171,666 shares of common stock in accordance with the terms of the 2009 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2009 Offering. Pursuant to the terms of the agreements with the brokerage firms, the Company owes the brokerage firms a ten percent cash commission on all funds that the brokerage firm helps raise. Accordingly, subsequent to the September 30, 2009, the Company incurred total fees payable to the brokerage firms of $15,450.

On October 26, 2009, an investor exercised his conversion right and converted his Debenture in the principal amount of $25,000, pursuant to the terms of the 2003 Offering. Accordingly the investor was issued 50,000 shares of common stock. See Note 8 "Convertible Debt".

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 September 30, 2009, and specifically in the item 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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Profile Technologies, Inc. The MD&A is provided as a supplement to, and should be read in conjunction with the Company's financial statements and the accompanying notes to the financial statements included in this Form 10-Q.

The Company's discussion and analysis of its financial condition and results of operations is based on its financial statements, which have been 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 and expenses and related disclosures. The Company reviews its estimates on an ongoing basis.

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(TM) External Inspection Process

The Company's core business is based on the technologies that it has developed and patented for defect inspection of pipelines using electromagnetic waves ("EMW"). 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 the external surface and surroundings of cased and thermally insulated pipelines. This service is marketed by the Company as the EMW-C(TM).

The EMW-C(TM) inspection process is a non-destructive corrosion inspection method patented by the Company, for long-range external assessment of cased and insulated pipelines. The technique uses electromagnetic waves to locate and identify corrosion and other anomalous conditions at distances down the length of the pipeline. This non-intrusive and non-destructive method can be performed without disturbing the pipeline casing or removing the protective insulation. After the initial inspection is performed, permanent connectors may be left on the pipeline to allow for repeat and periodic inspections or monitoring. In addition, the EMW-C(TM) inspection process provides corrosion inspection over long lengths of cased or insulated pipe sections from a single location, as opposed to most other inspection methods, which may only provide for point or

localized inspections.

Commercially available since November of 2007, the latest generation of the EMW-C(TM) inspection process incorporates enhancements in the process, hardware, and software garnered from years of development and inspection experience. The compact hardware can easily be transported to any job location and operated by a

crew of two trained technicians. The equipment is controlled wirelessly from a laptop where all inspection data is collected and stored. The modification of the equipment and its control has made for quicker inspections while improving accuracy and efficiency. This portable system is designed to allow testing of both underground and above-grade, cased and insulated pipelines with one test set. The new rugged and environmentally protected equipment has been used for many pipeline inspections and has proven to be a solid performer in conditions otherwise unfavorable to electronics equipment.

Correlating pipeline corrosion information using the Company's technology requires a combination of state-of-the-art instrumentation plus an understanding of the physical phenomena that are being measured. Management believes that the EMW-C(TM) measurement and analysis are on the leading edge of inspection technology.

New Product Developments - Installation of Permanent Connectors, Inspection of Wax-Filled Cased Pipelines, and Internal Inspection Process
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During the beginning of fiscal year 2010, the Company began selling two additional options with the EMW-C(TM) inspection service; permanent connectors for recurring inspection and dielectric fill analysis. Adding these two features increases the appeal of the EMW-C(TM) to the customer. The permanent connectors are a relatively low cost option which allow for quick re-inspection of the pipeline section at later times without the need for repeat excavation or preparation by the customer. Consecutive inspections create a historical data baseline and means to identify small but significant changes to the pipeline. This equates to more sensitive inspection at lower total cost of EMW-C(TM) inspection for the pipeline operator plus a permanent presence for the Company and recurring inspection services.

The Company also now offers a modification to the EMW-C(TM) which inspects the condition of wax or dielectric fill in cased pipelines. The filling of the void between the casing and the pipe with wax as a means of additional corrosion protection (the "wax-fill technology") has become popular in the oil and gas pipeline industry with the onset of new Federal Regulations allowing its use. The Company has worked closely with key participants in this technology to refine and demonstrate the company's capability to perform the initial inspection and long-term monitoring of wax-filled pipeline crossings in combination with EMW-C(TM) permanent connectors. The Company is now in a unique position to provide these services to all companies interested in the many benefits of the wax-fill technology.

In addition to services for external pipeline inspection, 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. In fiscal year 2009, significant progress was made in the advancement of the internal inspection process as a viable commercial product. Trials were performed at a third party research facility where the results exceeded the Company's expectations. Since the conclusion of these trials, the Company has recognized a significant market for this technology and therefore product development was accelerated. Demonstrations and field trials are being

scheduled with potential licensees and clients.

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 and more recently with internal inspection of pipelines, boiler, and heat exchanger tubes. The Company believes that its EMW-C(TM) technologies possess unique capabilities, are flexible in their applications and provide 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 technologies and their 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. This interest has continued through 2009 with the addition of new customers and contracts for the EMW-C(TM) service as well as the new permanent connector and wax-fill monitoring options.

As revenue is generated, the Company will continue to manufacture its EMW-C(TM) inspection equipment. The Company will also need to hire and train additional technicians to provide inspection services as demand requires. The Company expects that as additional 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 less than twelve 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, reimbursement of costs incurred to mobilize and demobilize field crews and inspection equipment to and from the inspection site, proceeds from the sale of permanent connectors, and other travel related costs.

Revenue for the three months ended September 30, 2009 and 2008 was $42,417 and $17,183. Revenue for the three months ended September 30, 2009 and 2008 consisted of pipeline inspections performed for three customers and one customer, respectively.

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 the cost of the materials to build the permanent connectors as well as 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 September 30, 2009 and 2008 was $53,168 and $11,357, resulting in gross margins of (25.3)% and 33.9%, respectively. Cost of revenue for the three months ended September 30, 2009 includes $23,012 for service contracts for which pipeline inspections have not been performed as of September 30, 2009. Excluding costs related to future service contracts, cost of revenue for the three months ended September 30, 2009 was $30,156, resulting in an adjusted gross margin of $12,261 or 28.9%.

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, including stock compensation, supplies and testing equipment utilized for the development of the EMW inspection technologies and other supply and travel expenses incurred pursuant to performing research and development related activities.

Research and development expense for the three months ended September 30, 2009 was $115,291, an increase of $32,858, compared to $82,433 for the three months ended September 30, 2008. The increase is substantially attributable to an increase in fees incurred for work performed by the consulting scientists as a result of additional resources spent developing the Company's internal pipeline inspection technology, the development of permanent connectors for recurring inspection, and modifications made to the EMW-C(TM) which inspects the condition of wax or dielectric fill in cased pipelines.

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, including that incurred by the Company's consulting scientists, and

costs incurred to attend conferences and trade shows.

Selling expense for the three months ended September 30, 2009 and 2008 was $51,419, an increase of $28,969, compared to $22,450 for the three months ended September 30, 2008. The increase from prior year is partially the result of the Company providing more field demonstrations to prospective customers during the quarter ended September 30, 2009 than in the same quarter of 2008, for the purpose of obtaining revenue generating contracts. During the three months ended September 30, 2009, sales related activities performed by the consulting scientists was $10,750 more than in the previous year.

On June 23, 2009, the Company retained the services of an independent consultant to assist the Company in seeking new customer opportunities, managing existing customer relationships, and publicizing the Company's EMW inspection technologies. As partial compensation, the Board approved a stock option grant to the consultant to purchase 50,000 shares of the Company's common stock, subject to certain vesting requirements, at an exercise price of $1.30, the fair market value of the Company's common stock on the date of grant. The stock option expires five years from the date of grant and vests as follows: (a) 25,000 shares after three months, and (b) 25,000 shares after six months. The fair value of the 50,000 stock options granted was estimated at $0.88 each, for a total of $44,000, using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 106.8%, risk-free interest rate of 1.74%, and expected life of 3.25 years. During the three months ended September 30, 2009 the Company recorded stock compensation expense of $25,666 for the amortization of this stock option grant, which is included in selling expense.

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 September 30, 2009 and 2008 was $192,721 and $205,308. The decrease of $12,587 is substantially due to a decrease of approximately $10,800 in legal fees. Legal fees fluctuate depending on utilization by the Company for SEC and corporate matters.

Gain (Loss) on Sale (Disposal) of Equipment

The Company recorded a gain on sale of equipment of $300 during the three months ended September 30, 2009 as a result of proceeds received from the sale of a truck that was previously being utilized on the North Slope of Alaska. The cost of the truck and the related accumulated depreciation had previously been removed from the Company's financial statements as the truck was no longer in service.

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

Interest Expense

Interest expense for the three months ended September 30, 2009 and 2008 was $14,252 and $4,994. The increase of $9,258 is partially the result of an increase in the accretion of the discount on the Debentures of $3,586. Additionally, during the three months ended September 30, 2009 one investor exercised his 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 September 30, 2009.

Interest Income

Interest income for the three months ended September 30, 2009 was $19 compared to $2,482 for the three months ended September 30, 2008. The Company maintained a higher average cash balance during the three months ended September 30, 2008 compared to the three months ended September 30, 2009, primarily as a result of proceeds received pursuant to the 2007 Offering.

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 $18,834,286 through September 30, 2009, does not have positive cash flows from operating activities, and had negative working capital of $1,019,757 as of September 30, 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 September 30, 2009, the Company had cash and cash equivalents of $247,721. 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, funds received pursuant to the 2009 Offering ($508,482 as of September 30, 2009), and proceeds received from the exercise of stock options and warrants.

Net cash used in operating activities was $320,307 for the three months ended September 30, 2009, compared to net cash used in operating activities of $265,926 for the same period in 2008. The increase of $54,381 in cash used in operating activities was mainly attributable to increases in research and development expense and costs of revenue not offset by the related revenue from service contracts (see "Results of Operations" above).

Net cash provided by investing activities was $300 for the three months ended September 30, 2009, compared to net used in investing activities of $4,634 during the same period in 2008. The Company recorded a gain on sale of equipment of $300 during the three months ended September 30, 2009 as a result of proceeds received from the sale of a truck that was previously being utilized on the North Slope of Alaska. During the three months ended September 30, 2008, the Company purchased $4,634 of contract related equipment.

Net cash provided by financing activities was $296,822 for the three months ended September 30, 2009 compared to net cash provided by financing activities

of $927,013 for the same period in 2008. During the three months ended September 30, 2009, the Company raised net proceeds of $296,822 pursuant to the terms of the 2009 Offering. During the three months ended September 30, 2008, the Company raised net proceeds of $899,013 pursuant to the terms of the 2007 Offering. Additionally, during the three months ended September 30, 2008, the Company received proceeds of $28,000 from the exercise of warrants.

Deferred Wages and Accrued Professional Fees

To reduce cash outflows, certain of the Company's employees, officers, consultants, and directors have agreed to defer a portion of their salaries and professional fees until the Company has sufficient resources to pay the amounts owed or to exchange such amounts into options as described below. At September 30, 2009, the Company has accrued $1,110,884 related to the deferred payment of salaries and professional fees of which $820,734 is included under deferred wages and $290,150 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 $1,110,884 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 months ended September 30, 2009, one investor exercised his conversion right and converted his Debenture in the principal amount $10,000, pursuant to the terms of the 2003 Offering. Accordingly the Company issued 20,000 shares of common stock. 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 at the conversion date was recognized as interest expense during the three months ended September 30, 2009.

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

As of September 30, 2009, accrued interest on the Debentures was $429. 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 $13,641 and $3,365 for the three months ended September 30, 2009 and 2008. As of September 30, 2009 there was one outstanding Debenture, which is considered current, with a carrying value of $25,000.

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 months ended September 30, 2008, the Company raised $998,903 and issued 1,109,885 shares of common stock pursuant to the terms of the 2007 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2007 Offering. Pursuant to the terms of the agreement with the brokerage firms, the Company paid the brokerage firms a ten percent cash commission on all funds that the brokerage firm helped raise. Accordingly, during the three months ended September 30, 2008, the Company incurred total fees payable to the brokerage firms of $99,890. As of September 30, 2009, the Company was current with respect to the amount owed the brokerage firms.

2009 Private Placement Equity Offering

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. On October 2, 2009, the Board determined that it was in the best interests of the Company to extend the termination date of the 2009 Offering and voted to extend the expiration date to December 2, 2009.

During the three months ended September 30, 2009, the Company raised gross proceeds of $329,802 under the terms of the 2009 Offering. Accordingly, the Company issued 366,445 shares of common stock pursuant to the terms of the 2009 Offering.

The Company engaged two brokerage firms to help in the fund raising efforts of the 2009 Offering. Pursuant to the terms of the agreements with the brokerage firms, the Company owes the brokerage firms a ten percent cash commission on all funds that the brokerage firm helps raise. Accordingly, during the three months ended September 30, 2009, the Company incurred total fees payable to the brokerage firms of $32,980. As of September 30, 2009, the Company owed the brokerage firms $6,080 of which $5,080 is included in accounts payable and $1,000 in accrued professional fees.

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 September 30, 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 September 30, 2009, the Company has future minimum lease payments of approximately $25,700 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 September 30, 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.

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.

During the three months ended September 30, 2009, the Company raised gross proceeds of $329,802 under the terms of the 2009 Offering. Accordingly, the Company issued 366,445 shares of common stock pursuant to the terms of the 2009 Offering. The issuance of the common stock is exempt from registration pursuant to Section 4(2) of the Securities Act, and the stock certificates contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

Convertible Debentures and Warrants

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

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

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

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

During the three months ended September 30, 2009, one investor exercised his conversion right and converted his Debenture in the principal amount $10,000, pursuant to the terms of the 2003 Offering. Accordingly the Company issued 20,000 shares of common stock in accordance with the terms of the 2003 Offering.

Item 3. Defaults Upon Senior Securities.

None.

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

There were no matters submitted to a vote of the Company's security holders during its fiscal first quarter of the year ended June 30, 2010.

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)

November 5, 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 3.8	Form of Subscription Agreement by and between Profile Technologies, Inc. and investors in the 2009 Offering (incorporated by reference to Exhibit 3.8 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 14, 2009).
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.