PROFILE TECHNOLOGIES INC
Form 10QSB
May 15, 2008

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2008

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

For the transition period from ___________ to ___________

Commission file number 000-29196

PROFILE TECHNOLOGIES, INC.
(Name of Small Business Issuer 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
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes|_| No |X|

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 14,339,260 shares of common stock as of May 6, 2008.

Transitional Small Business Disclosure Format (check one): Yes|_| No |X|

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

PROFILE TECHNOLOGIES, INC.
Balance Sheets
(Unaudited)

March 31,

	2008
Assets	
Current assets:	
Cash and cash equivalents	$ 541,289
Deferred contract costs	263
Prepaid expenses and other current assets	30,631
Total current assets	572,183
Equipment, net of accumulated depreciation of $12,136 and $10,170	8,222
Other assets	1,833
Total assets	$ 582,238
Liabilities and Stockholders' Deficit	
Current Liabilities:	
Accounts payable	$ 159,332
Notes payable to stockholders	7,500
Current portion of convertible debt	65,000
Deferred wages	759,783
Accrued professional fees	226,150
Accrued interest	1,371
Other accrued expenses	12,644
Total current liabilities	1,231,780
Long-term convertible debt, net of unamortized discount of $41,604 and $59,001	3,396
Stockholders' deficit:	
Common stock, $0.001 par value: 35,000,000 shares authorized, 14,211,483 and 12,798,706 shares issued and outstanding	14,212
Common stock issuable; 122,222 shares	122
Additional paid-in capital	15,429,290
Accumulated deficit	(16,096,562)
Total stockholders' deficit	(652,938)
Commitments, contingencies and subsequent events	
Total liabilities and stockholders' deficit	$ 582,238

See accompanying notes to financial statements.

PROFILE TECHNOLOGIES, INC.
Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine 2008
Revenue	$ --	$ --	$ 13,3
Cost of revenue	--	--	(18,8
Gross profit (loss)	--	--	(5,5
Operating expenses:			
Research and development	59,084	66,575	324,2
Selling	14,118	--	14,1
General and administrative	159,022	124,081	1,038,6
Contract related	48,743	--	48,7
Total operating expenses	280,967	190,656	1,425,8
Loss from operations	(280,967)	(190,656)	(1,431,3
Gain on sale of fixed assets	6,914	--	6,9
Interest expense	(3,115)	(10,051)	(23,1
Interest income	3,989	1,812	13,0
Net loss	$ (273,179)	$ (198,895)	$ (1,434,5
Basic and diluted net loss per share	$ (0.02)	$ (0.02)	$ (0.
Weighted average shares outstanding used to calculate basic and diluted net loss per share	14,316,123	12,623,945	13,856,9

See accompanying notes to financial statements.

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

Cash flows from operating activities:
Net loss
Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization
Gain on sale of fixed assets
Accreted discount on convertible debt
Amortization of convertible debt discount included in interest expense
Amortization of debt issuance costs
Equity issued for services to consultants
Equity issued for services to employees and board of directors
Changes in operating assets and liabilities:
Deferred contract costs
Prepaid expenses and other current assets
Other assets
Accounts payable
Deferred wages
Accrued professional fees
Accrued interest

Net cash used in operating activities

Cash flows from investing activities:
Proceeds from sale of fixed assets

Net cash provided by investing activities

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

Net cash provided by financing activities

Increase (decrease) in cash

Cash at beginning of period

Cash at end of period

Supplemental disclosure of cash flow information:
Cash paid for interest
Convertible debt and related accrued interest converted into 30,000 and 100,000 shares of common stock during the nine months ended March 31, 2008 and 2007

See accompanying notes to financial statements.

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PROFILE TECHNOLOGIES, INC
March 31, 2008
Notes to Financial Statements (Unaudited)

Note 1: 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 remotely inspect buried, cased and insulated pipelines for corrosion and other anomalies. The Company's services are available to owners and operators of natural gas and oil pipelines, power plants and refineries, utilities, and other facilities with cased or insulated pipe. The Company is actively marketing its inspection services for cased and insulated pipelines. In conjunction with providing inspection services, the Company continues research and development of the application of its patented technology to inspect pipelines internally as well as those pipelines that are directly buried.

Note 2: Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred cumulative losses of $16,096,562 through March 31, 2008, and had negative working capital of $659,597 as of March 31, 2008. Additionally, the Company has expended a significant amount of cash in developing its technology and patented processes. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management recognizes that in order to meet the Company's capital requirements, and continue to operate, additional financing, including seeking industry-partner investment through joint ventures or other possible arrangements, will be necessary. The Company is evaluating alternative sources of financing to improve its cash position and is undertaking efforts to raise capital. If the Company is unable to raise additional capital or secure revenue contracts and generate positive cash flow, it is unlikely that the Company will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 3: Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim 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 preparation of financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. On an on-going basis, the Company evaluates its estimates, including contract revenue recognition and impairment of long-lived assets. Actual results and outcomes may differ materially from these estimates and assumptions.

The 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, 2007. 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.

Cash and cash equivalents

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

Fair Value of Financial Instruments

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

Deferred Financing Fees

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

Deferred Contract Costs

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

Contract Revenue Recognition

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

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

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

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

Research and Development

Research and development costs are expensed when incurred. During the three months ended March 31, 2008 and 2007, the Company incurred $59,084 and $66,575 on research and development activities. During the nine months ended March 31, 2008 and 2007, the Company incurred $324,264 and $381,297 on research and development activities.

Equipment

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

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

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

Valuation of Warrants and Options

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

Use of Estimates

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

Recently Issued Accounting Standards Not Yet Adopted

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements ("Statement No. 157"). Statement No. 157 prescribes a definition of the term "fair value", establishes a framework for measuring fair value and expands disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position ("FSP") FSP FAS 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of Statement No. 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis (at least annually). The Company does not expect the application of Statement No. 157 to have a material effect on the Financial Statements.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("Statement No. 159"). Statement No. 159 permits an instrument by instrument election to account for selected financial assets and liabilities at fair value. Statement No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the application of Statement No. 159 to have a material effect on the Financial Statements.

On December 21, 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 110 ("SAB 110") to permit entities, under certain circumstances, the continued use of the "simplified" method, in developing estimates of expected term of "plain-vanilla" share options in accordance with Statement No. 123R Share-Based Payment. SAB 110 amended SAB 107 to permit the use of the "simplified" method beyond December 31, 2007. On July 1, 2007, the Company revised its methodology for estimating the expected term of its "plain-vanilla" stock options and implemented the simplified method, as permitted by SAB 107. This change in estimate did not have a material effect on the Company's Financial Statements.

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 and nine months ended March 31, 2008, the Company incurred cash fees payable to the scientists of $60,733 and $219,160. During the three and nine months ended March 31, 2007, the Company incurred cash fees payable to the scientists of $62,003 and $193,992.

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

As partial compensation for services rendered, on November 13, 2006, the Company granted the scientists stock options to purchase a total of 100,000 shares of common stock at an exercise price of $0.86 per share, expiring November 12, 2016. The 100,000 stock options had a fair value at the date of grant of $77,000, which is included in research and development expense in the Company's Statements of Operations for the nine months ended March 31, 2007.

As partial compensation for services rendered, on July 13, 2006, the Company granted one of the scientists a stock option to purchase 100,000 shares of common stock at an exercise price of $1.05 per share, expiring July 12, 2011. The 100,000 stock options had a fair value at the date of grant of $89,000, which is included in research and development expenses in the Company's Statements of Operations for the nine months ended March 31, 2007.

Total cash and equity compensation expense incurred for settlement of services rendered by the scientists totaled $60,733 and $257,160 for the three and nine months ended March 31, 2008. Total cash and equity compensation expense incurred for settlement of services rendered by the scientists totaled $62,003 and $359,992 for the three and nine months ended March 31, 2007.

As of March 31, 2008, the Company owed the consultant scientists a total of $86,546, which is included in accounts payable at March 31, 2008.

Note 4: Stock Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R Share-Based Payment ("SFAS 123R"), Prior to January 1, 2006, the Company accounted for stock-based awards under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related Interpretations, as permitted by SFAS 123. In accordance with APB 25, no compensation expense was required to be recognized for stock options granted that had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant.

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

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

	Three Months Ended March 31,		Nine Mo Ma
	2008	2007	2008
Risk-free interest rate	1.86%	*N/A	3.53%
Volatility	128.74%	*N/A	145.50%
Expected dividend yield	0%	*N/A	0%
Expected life	3.8 years	*N/A	4.5 years
Weighted average Black-Scholes value of options granted	$0.90	*N/A	$1.03

*N/A There were no grants during the three months ended March 31, 2007.

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

The following table sets forth the share-based compensation cost resulting from stock option grants that was recorded in the Company's Statements of Operations for the three and nine months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
General and administrative	$ --	$ --	$527,100	$365,750
Research and development	5,563	--	76,813	166,000
Total	$ 5,563	$ --	$603,913	$531,750

A summary of the Company's year-to-date stock option activity and related information follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at June 30, 2007	3,180,000	$ 1.14		
Grants	665,000	1.23		
Expirations	(30,000)	8.50		
Outstanding at March 31, 2008	3,815,000	$ 1.10	6.6 years	$ 161,35
Exercisable at March 31, 2008	3,715,000	$ 1.10	6.7 years	$ 161,35
Available for grant at March 31, 2008	2,100,000			

The aggregate intrinsic value of the table above represents the total pretax intrinsic value for all "in-the-money" options (i.e., the difference between the Company's closing stock price on the last trading day of its third quarter of 2008 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on March 31, 2008. This amount changes based on the fair market value of the Company's stock.

As of March 31, 2008, the Company had approximately $78,000 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 3.52 years.

Note 5: Net Loss Per Share

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

Excluded from the computation of diluted net loss per share for the three and nine months ended March 31, 2008, because their effect would be antidilutive, are stock options and warrants to acquire 11,966,028 shares of common stock with a weighted-average exercise price of $0.86 per share. Also excluded from the computation of diluted net loss per share for the three and nine months ended March 31, 2008 are 220,000 shares of common stock that may be issued if investors exercise their conversion right under the Debentures related to the 2003 Offering as discussed in Note 7 "Convertible Debt" because their effect would be antidilutive.

Excluded from the computation of diluted net loss per share for the three and nine months ended December March 31, 2007, because their effect would be antidilutive, are stock options and warrants to acquire 12,426,417 shares of common stock with a weighted-average exercise price of $0.99 per share. Also excluded from the computation of diluted net loss per share for the three and nine months ended March 31, 2007 are 250,000 shares of common stock that may be issued if investors exercise their conversion right under the Debentures related to the 2003 Offering as discussed in Note 7 "Convertible Debt" because their effect would be antidilutive.

For the three and nine months ended March 31, 2008 and 2007, additional potential dilutive securities that were excluded from the diluted net loss per share computation are the exchange rights discussed in Note 8 "Deferred Wages and Accrued Professional Fees" that could result in options to acquire up to 223,000 shares of common stock with an exercise price of $1.00 per share at March 31, 2008 and 2007.

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

Note 6: Related Parties

Notes Payable - Stockholders

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

Note 7: Convertible Debt

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

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

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

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

During the nine months ended March 31, 2008, one investor exercised his conversion right and converted his Debenture in the principal amount of $15,000, pursuant to the terms of the 2003 Offering. Accordingly, the carrying value of the convertible debt was reclassified as equity upon conversion. Since the convertible debt instruments include a beneficial conversion feature, the remaining unamortized discount of $14,802 at the conversion date was recognized as interest expense during the nine months ended March 31, 2008.

During the three and nine months ended March 31, 2007, two and three investors, respectively, exercised their conversion right and converted Debentures in the combined principal amounts of $25,000 and $50,000, respectively, pursuant to the terms of the 2003 Offering. Accordingly, the carrying value of the convertible debt was reclassified as equity upon conversion. Of the principal amounts of $25,000 and $50,000 converted during the three and nine months ended March 31, 2007, $7,500 was recorded as long-term convertible debt on the balance sheet at the time of conversion. Since the convertible debt instrument included a beneficial conversion feature, the remaining unamortized discount of $7,365 at the conversion date was recognized as interest expense during the three and nine months ended March 31, 2007. The discount related to the remaining principal amounts of $17,500 and $42,500 for the three and nine months ended March 31, 2007 was previously expensed as interest expense during the quarter ended June 30, 2004 when the Company was deemed to be in default with respect to the interest payment terms.

As of March 31, 2008, accrued interest on the Debentures was $1,371. The Company recorded interest expense related to the accretion of the discount on the Debentures and amortization of the convertible debt discount as a result of the conversions discussed above of $1,294 and $17,397 for the three and nine months ended March 31, 2008. The Company recorded interest expense related to the accretion of the discount on the Debentures of $7,604 and $7,925 for the three and nine months ended March 31, 2007. As of March 31, 2008 the carrying value of the long-term portion of the Debentures was $3,396, net of unamortized debt discount of $41,604.

Note 8: Deferred Wages and Accrued Professional Fees

To reduce cash outflows, certain of the Company's employees, officers, consultants, and directors have agreed to defer a portion of their salaries and professional fees until the Company has sufficient resources to pay the amounts owed or to exchange such amounts into options as described below. At March 31, 2008, the Company has accrued $985,933 related to the deferred payment of salaries and professional fees of which $759,783 is included under deferred wages and $226,150 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 $985,933 deferred salaries and professional fees, the amount subject to the Conversion Right is $111,500, resulting in the potential issuance of 223,000 options under the terms mentioned above. No conversions have occurred to date. At March 18, 2002, there was no intrinsic value associated with these exchange rights. As such, no additional compensation cost was recorded.

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Note 9: Common Stock

On June 21, 2007, the Company entered into a private placement offering (the "2007 Offering") of 1,300,000 shares of common stock at $0.90 per share to accredited investors. On October 4, 2007, the Board approved an increase in the offering to 2,000,000 shares of common stock for a total offering price of $1,800,000. On March 14, 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 May 1, 2008.

During the three months ended March 31, 2008, the Company raised $120,000 under the terms of the 2007 Offering. Accordingly, the Company issued 133,333 shares of common stock.

The Company engaged a brokerage firm to help in the fund raising efforts of the 2007 Offering. Pursuant to the terms of the agreement with the brokerage firm, the Company pays the brokerage firm a ten percent cash commission on all funds that the brokerage firm helps raise. Accordingly, during the three months ended March 31, 2008, the Company incurred cash fees payable to the brokerage firm of $12,000. As of March 31, 2008, the Company was current with respect to the amount owed the brokerage firm.

Note 10: Stock Options and Warrants

Stock Options

Stock Option Grants

On November 13, 2007, the Board approved the issuance of stock options, exercisable for a total of 550,000 shares of common stock pursuant to the 1999 Stock Option Plan to certain directors, officers, employees and four consultants of the Company. The grant date of the stock options was November 16, 2007 and they were fully vested upon grant. The stock options granted to directors, officers, and employees are exercisable until November 15, 2017. The stock options granted to the consultants are exercisable until November 15, 2012. The exercise price of the stock options granted to affiliates owning or controlling more than ten percent of the Company's common stock was $1.32. The exercise price of the stock options granted to non-affiliates was $1.20. On November 16, 2007, the date of grant, the Company recognized $65,750 as research and development expense related to the fair value of 75,000 of the stock options and $506,250 as general and administrative expense related to the fair value of 475,000 of the stock options. The fair value of the stock option grants that expire on November 15, 2012 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 111%, risk-free interest rate of 3.30%, expected lives of 2.5 years, and a 0% dividend yield. The fair value of the stock option grants that expire on November 15, 2017 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 156%, risk-free interest rate of 3.68%, expected lives of five years, and a 0% dividend yield.

On August 20, 2007, the Board elected Robert C. Geib as the Company's Chief Operating Officer, effective September 4, 2007. Mr. Geib's annual base salary was set by the Board at $115,000. In addition, the Board agreed to grant Mr. Geib, on September 4, 2007 an option to purchase 50,000 shares of the Company's common stock, under the Company's 1999 Stock Option Plan, and on March 4, 2008 to grant him an additional option to purchase 50,000 shares of common stock. The exercise price of each grant shall be equal to the closing price of the common stock on the date of grant, or, if the Company's stock is not traded on the date of grant, the first day of active trading following each respective grant date. Each of the two option grants vest 25% on the first anniversary of the grant date, with the remainder vesting at 25% on each of the three subsequent anniversaries of the grant date until the options are fully vested. The exercise prices of the stock options granted on March 4, 2008 and September 4, 2007 were $1.13 and $1.05. The fair value of the option grant on March 4, 2008 was $45,000 at the time of grant. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 129%, risk-free interest rate of 1.86%, expected life of 3.75 years, and a 0% dividend yield. The fair value of the option grant on September 4, 2007 was $44,000 at the time of grant. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions (the original assumptions used were revised during the quarter ended December 31, 2007 to be consistent with second quarter issuances: expected volatility of 140% (originally 81%), risk-free interest rate of 4.26%, expected life of 3.75 years (originally estimated at five years), and a 0% dividend yield. The Company recognized amortization expense of $5,563 and $11,063, during

the three and nine months ended March 31, 2008, as research and development expense related to these stock option grants. The effects of revising the weighted average assumptions for the Black-Scholes valuation for the September 4, 2007 was not material to the Company's financial statements.

On August 21, 2007, the Board nominated Richard L. Palmer to fill the vacancy on the Board created as a result of the death of Mr. William Krivsky in December 2006. Mr. Palmer was subsequently elected by the Stockholders on September 16, 2007 at the Annual Meeting of Stockholders. On September 12, 2007, the Board granted Mr. Palmer an option to purchase 15,000 shares of the Company's common stock, under the Company's 1999 Stock Option Plan. The exercise price of the stock option was $1.50, the closing price of the common stock on the date of grant. The stock option was fully vested upon grant and expires on September 11, 2017. In addition, Mr. Palmer receives $1,000 per month as a compensation for his services as a Board member. The Company recognized $20,850, at the time of grant, as board fee expense for the fair value of the option grant. The fair value of the option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions (the original assumptions used were revised during the quarter ended December 31, 2007 to be consistent with second quarter issuances: expected volatility of 155% (originally 80%), risk-free interest rate of 4.11%, expected life of five years, and a 0% dividend yield. The effects of revising the weighted average assumptions for the Black-Scholes valuation was not material to the Company's financial statements.

On November 13, 2006, the Board approved the issuance of stock options exercisable for a total of 575,000 shares of common stock pursuant to the 1999 Stock Option Plan to certain directors, officers, employees and four consultants of the Company. The stock options were fully vested upon grant and are exercisable until November 12, 2016. The exercise price of the stock options granted to affiliates owning or controlling more than ten percent of the Company's common stock was $0.95, which is ten percent over the closing bid price of the Company's common stock as quoted on the Over the Counter Bulletin Board on the grant date, November 13, 2006. The exercise price of the stock options granted to non-affiliates was $0.86. On November 13, 2006, the date of grant, the Company recognized $77,000 as research and development expense related to the fair value of 100,000 of the stock options and $365,750 as general and administrative expense related to the fair value of 475,000 of the stock options. The fair value of the stock option grants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 142%, risk-free interest rate of 4.60%, expected lives of five years, and a 0% dividend yield.

On July 13, 2006, the Board approved an option grant to a consultant to purchase 100,000 shares of the Company's common stock at an exercise price of $1.05 per share. The option was granted in consideration for work the consultant is performing for the Company and was not granted pursuant to the 1999 Stock Option Plan. The option was fully vested upon grant and is exercisable until July 13, 2011. The Company recognized $89,000, at the time of grant, as research and development expense for the fair value of the option grant. The fair value of the option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 160%, risk-free interest rate of 5.04%, expected life of five years, and a 0% dividend yield.

Warrants

Warrant Grants

On November 13, 2006, the Board approved the issuance of warrants exercisable for a total of 450,000 shares of common stock to certain directors and officers of the Company. The warrants are fully vested upon grant and are exercisable until November 12, 2016. The exercise price of the warrants was $0.86, which was the closing bid price of the Company's common stock as quoted on the Over the Counter Bulletin Board on the grant date, November 13, 2006. During the three months ended December 31, 2006, the Company recognized $346,500 as general and administrative expense related to the fair value of the warrants. The fair value of the warrant grants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 142%, risk-free interest rate of 4.60%, expected lives of five years, and a 0% dividend yield.

Note 11: Subsequent Events

On April 29, 2008, the Board voted to extend the expiration date of the 2007 Offering to June 30, 2008. Subsequent to March 31, 2008, the Company has raised $5,000 under the terms of the 2007 Offering. Accordingly, the Company issued 5,555 shares of common stock.

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

Plan of Operation

In recent years, the Company has focused on the buried pipe market in the United States. Through its operations, it has identified key changes to its EMW Inspection Process and has redesigned and improved the equipment hardware. It has also performed lab and field testing of this new hardware and has developed computer models to better predict and interpret field conditions.

On March 27, 2007, the Company was issued a patent by the United States Patent and Trademark Office. This patent provides significant patent protection for the improvements made to the Company's EMW technology over the last three years. These improvements have now been incorporated into new hardware and software that have been deployed to the field. To date, two field-ready test sets have been built to utilize the latest improvements.

During the next twelve months, the Company intends to focus on obtaining revenue generating contracts for the inspection of cased and insulated pipelines. Compared to other inspection methods, the Company believes that its EMW technology possesses unique capabilities, is flexible in its application and provides a cost efficient solution to obtaining valuable information about the condition of the pipeline that is otherwise difficult to obtain. During fiscal year 2008, the Company has continued its marketing efforts in the refining, pipeline and utility insulated and cased pipe inspection markets. With respect to the pipeline and utility market segments, efforts have been particularly focused on "high consequence areas" as that term is defined in the federal Department of Transportation's regulations. However, there can be no assurance that the Company's marketing efforts for the EMW technology in these market segments will be successful. Failure to obtain revenue generating contracts could have a serious and material effect on the business and financial condition of the Company.

While the Company has, in the past, inspected only for external corrosion and anomalies, it has filed a patent application covering the adaptation of its technology for internal pipeline inspections. The Company is in the early stages of analyzing the market demand and defining the development requirements for the internal pipeline inspection technology. The Company believes that the similarity of the internal inspection technology to its insulated and cased pipeline inspection technology will allow for a shorter development period than the development of the insulated and cased pipeline inspection technology. However, significant design, fabrication and testing must be done before the Company will be able to offer internal pipeline inspection services.

Capital will be expended to support operations until the Company can generate sufficient cash flows from operations. In order for the Company to generate cash flows from operations, the Company must obtain additional revenue generating contracts. Management is currently directing the Company's activities towards obtaining 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 expects that if revenue contracts are secured, working capital requirements will increase. The Company will incur additional expenses as it hires and trains field crews and support personnel related to the successful receipt of commercial contracts. Additionally, the Company anticipates that cash will be used to meet capital expenditure requirements necessary to develop infrastructure to support future growth.

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. The Company has raised $1,296,501 under its current effect private placement memorandum (see Note 9, "Common Stock"). However, management recognizes that in order to meet the Company's capital requirements and continue to operate, it may require additional financing, perhaps through industry-partner investment or through joint ventures or other possible arrangements within the next twelve months. The Company is evaluating alternative sources of financing to improve its cash position. 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.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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

Item 3. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. The Company's Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. He has concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in the Company's reports filed under the Exchange Act.

(b) Changes in Internal Control over Financial Reporting

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

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Common Stock

On June 21, 2007, the Company entered into a private placement offering (the "2007 Offering") of 1,300,000 shares of common stock at $0.90 per share to accredited investors. On October 4, 2007, the Board approved an increase in the offering to 2,000,000 shares of common stock for a total offering price of $1,800,000.

During the three months ended March 31, 2008, the Company raised $120,000 under the terms of the 2007 Offering. Accordingly, the Company issued 133,333 shares of common stock. 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.

Stock Options

Stock Option Grants

On March 4, 2008, pursuant to an employment agreement, the Board granted Robert C. Geib, the Company's Chief Operating Officer, an option to purchase 50,000 shares of the Company's common stock, under the Company's 1999 Stock Option Plan. The exercise price was $1.13, the closing price of the common stock on the first day of active trading following the grant date. The stock option vests 25% on the first anniversary of the grant date, with the remainder vesting at 25% on each of the three subsequent anniversaries of the grant date until the option is fully vested. The fair value of the stock option grant on March 4, 2008 was $45,000. The fair value was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 129%, risk-free interest rate of 1.86%, expected life of 3.75

years, and a 0% dividend yield. The common stock underlying the stock option is exempt from registration pursuant to Section 4(2) of the Securities Act and the stock option certificate contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed with or incorporated by reference into this report:

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 10.1	Royalty Agreement (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form SB-2 filed with the Commission on May 10, 1996).
Exhibit 10.2	Assignment of Patent Rights (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form SB-2 filed with the Commission on May 10, 1996).
Exhibit 10.3	1999 Stock Option Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-KSB filed with the Commission on October 12, 2004).
Exhibit 10.4	First Amendment to the 1999 Stock Option Plan (incorporated by reference to Appendix B to the Company's Preliminary

	Proxy Statement filed with the Commission on September 13, 2006).
Exhibit 10.5	Amendment to Lease dated February 8, 2008 by and between the Company and Long Island Property Management LP. *
Exhibit 10.6	Consulting Agreement dated April 11, 2007, by and between the Company and R.F. Lafferty. (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-QSB filed with the Commission on May 9, 2007).
Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of Henry E. Gemino, as Chief Executive Officer and Chief Financial Officer of the Company. *
Exhibit 32.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002 by Henry E. Gemino, as Chief Executive Officer and Chief Financial Officer of the Company. *

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*Filed herewith.

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)

Date: May 15, 2008

/s/ Henry E. Gemino

Henry E. Gemino
Chief Executive Officer and
Chief Financial Officer

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