

Propell Corporation.
Form 10-K
April 13, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For Fiscal Year Ended December 31, 2010

000-53488

Commission file number

PROPELL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-1856569
(I.R.S. Employer Identification No.)

305 San Anselmo Avenue, Suite 300

San Anselmo, CA 94960

(Address of principal executive offices)

(415) 747-8775

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock

(Title of Class)

None

(Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act: Common Stock, \$0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [] No [X]

Yes [] No [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] 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. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer 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

The aggregate market value of the voting stock of the Company held by non-affiliates as of June 30, 2010 was approximately \$5,689,394 based on the price at which the common stock was last sold prior to such date.

The Registrant has 22,757,575 shares of common stock outstanding as of March 30, 2011.

PROPELL CORPORATION AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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PART I

CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K and the information incorporated by reference includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, governmental regulations, ability to raise capital, ability to retain customers, dependence upon certain customers, reduction in orders from customers, competitive product offerings and pricing actions, the availability and pricing of key raw materials, dependence on key members of management, and economic and political conditions in the United States and abroad.

Item 1. Business

Our Company

We are a Delaware company primarily engaged in the on-demand e-commerce line of business. We enable turnkey e-commerce web sites for education, military and media partners under the registered trademark PropellShops® in which we sell apparel and other merchandise branded with the organization's logo or other artwork, providing all necessary technology, on-demand manufacturing, marketing and fulfillment services at no risk or cost to its partners, and share resulting revenue with the partners.

Our primary target markets are K-12 schools, universities, military, independent musicians, nonprofits and businesses, for whom the company provides a wide selection of options for customized apparel, uniforms, and other merchandise. Most products are created on demand, meaning they are manufactured as ordered, so there is no finished inventory required. While we work with some independent groups and individuals, our business model is based upon the formation of strategic partnerships with key targeted companies involved in each of our target markets in order to obtain access to a large number of customers.

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The PropellShops system permits partners with little or no technical or graphic expertise to quickly become Store Owners and have online shops displaying a wide variety of personalized apparel and other merchandise featuring the school or organization's brand or other artwork. The Store Owner then publicizes the shop to its potential customers, and Propell does all manufacturing, billing, customer support and shipping.

Since Propell does not charge for the set up fee for e-commerce shops, and merchandise is only manufactured when ordered, the PropellShops system eliminates almost all risk or investment for Store Owners. They carry no inventory, and Propell handles all fulfillment. Further, Propell's on-demand system also eliminates minimum order quantities and long lead times. Propell collects all revenue and then distributes a share of every sale to the Store Owner.

Our principal offices are located at 305 San Anselmo Avenue, Suite 300, San Anselmo, CA 94960. Our telephone number is (415) 747-8775. Our fiscal year end is December 31.

Propell Corporation is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (CMI), a Florida Corporation, merged with an acquisition subsidiary of Propell's, which was formed solely for the purpose of the merger of CMI with and into Propell. As part of this transaction, the Company issued an aggregate of 5,400,000 shares to the former shareholders of CMI.

On May 6, 2008, the Company acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) (AMS) and Auleron 2005, LLC (d/b/a Auleron Technologies) (AUL) and made each a wholly owned subsidiary. A total of 2,094,864 shares of the Company's common stock were issued to the members of Mountain Capital, LLC and a total of 136,088 shares of the Company's common stock were issued to the members of AUL.

The mergers were completed in order to form a consolidated enterprise with subsidiaries that each have experience in complementary parts of the imaging and personalized products industries, and to expand their capabilities both online and at retail.

In mid-2009, Management decided to concentrate its efforts and assets on its e-commerce and laser etching businesses. Shortly thereafter, AUL and AMS began to wind down operations. In January 2010, AUL was dissolved. In late 2009, AMS assigned its warranty responsibilities and its inventory to a third party and ceased operations. We dissolved AMS in late 2010.

In early 2010, management decided to concentrate on its e-commerce business. This led to closing CMI's operations in June 2010. In September 2010, CMI's assets were foreclosed upon by its largest creditor and these assets were liquidated.

Market size/opportunity

We were created to acquire and aggregate customers and leverage significant growth trends and opportunities in the promotional products and digital photo industries. As we have evolved as a company, and in response to market conditions, we now focus on offering personalized merchandise via custom web sites, primarily K-12 schools, universities, military, independent musicians, nonprofits and businesses.

Our particular focus on the school market is driven by the size of the market and our belief that this category is underserved by current providers of our type of on-demand merchandise. There are over 130,000 K-12 schools in the U.S., according to the U.S. Department of Education National Center for Education Statistics' most recent report, as well as more than 6,000 post-secondary schools. While most schools already offer school gear purchased in quantity, we believe each of these institutions is a candidate for our type of on-demand merchandise service, since unlike traditional apparel and merchandise printing methods, it requires no upfront investment in inventory, and can be personalized with no minimum quantities.

Our management team has extensive experience in technology, customer acquisition, ecommerce and retail with particular focus in the online, kiosk and photo merchandise category, as well as the promotional products market. We believe this experience is highly applicable to our target markets for personalized merchandise.

We present here various statistics and other industry information that are generally available to the public or to members of industry trade associations. With respect to the Photo Marketing Association (PMA), we paid to be a member of that association at the time we received this information, and received that association's statistics as all members do. We did not fund nor were we otherwise affiliated with any of the studies that are the basis for these statistics and other industry information.

While no industry statistics are available on the size of the relatively recent market for on-demand merchandise for schools and our other target categories, the custom products/gifts category (defined by the Photo Marketing Association) as personalized calendars, photo books, posters, t-shirts, mugs mouse pads, photo CDs and DVDs ordered at retail or at online stores grew from \$250 million in 2004 to an estimated \$1.3 billion in 2009, according to the PMA research division, including photo cards, photo books, and other personalized merchandise. We believe these trends are applicable to our target markets. More recently, industry research company Infotrends forecast, in its U.S. Consumer Photo Merchandise Forecast for 2009-2014, that the category will reach \$2.2 billion by 2014.

The online marketplace for image-based products actually spans several categories, primarily those of photo sharing web sites and image merchandise sites. Our management team has relevant experience in both. Photo sharing web sites, such as Shutterfly, Kodak Gallery and Snapfish, are designed for consumers and are optimized for sharing and printing photos, and creating photo merchandise from those images. Social networks, including Flickr, Myspace, and Facebook, have extensive photo capabilities integrated into their functionality. Image merchandise sites, such as Zazzle, Cafepress and Threadless, allow artists, consumers and small businesses to create their own custom web stores featuring selected images that can be reproduced on a broad variety of merchandise. Our operations most closely resemble this category, although we focus on different target customers.

By offering personalized merchandise, we also compete in the promotional products category, also known as the advertising specialty category. Promotional products, which include any products used to promote a product, service or company program, including textiles and other personalized products, constituted a \$15.6 billion category in 2009, according to the most recent research available from the Promotional Products Association International (PPAI), an industry trade association.

We see significant opportunity given that approximately half of distributors in the promotional products category are small businesses (defined as those under \$2.5 million), and less than 16% of industry revenues are generated from online sales methods, according to the most recent data available from PPAI.

Our Strategy

Overview

We believe that our PropellShops e-commerce and on-demand manufacturing capabilities, infrastructure and marketing, along with a strategy of focusing on markets currently underserved by other providers, will permit us to grow in each of our target markets. We also believe the low or zero cost of setting up a PropellShop will continue to attract new accounts, especially those such as schools and nonprofits, that may have limited funds and staff resources to invest in and manage such purchases.

How we address the competitive opportunity

Our PropellShops service permits artists, consumers and businesses to quickly create an online store for merchandise featuring their images, with our company or its manufacturing partners performing all fulfillment, manufacturing, shipping and billing. This system provides a special web site at which a customer -- whether a business, group, or individual -- can design and set up a web store featuring their own logos, photos or other artwork. That web store can then be linked to, or embedded into, the customer's own web site. We then operate that store for the customer, taking orders, manufacturing and shipping product and paying a share of the revenue to the customer.

Additionally, our management has experience in retail fulfillment. One of our founders previously created PhotoTLC, a photo merchandise company serving major retail customers including Walgreens, Wal-Mart, CVS, Rite Aid and Meijer stores.

Our product and service offerings

With PropellShops, we offer a turnkey e-commerce web site permitting our partners to offer personalized or custom merchandise featuring their logo or other artwork. PropellShops permits a partner -- whether a school, nonprofit, rock band or business -- to create a complete web store, potentially with 100s of items of personalized merchandise. The partner sets the prices, and we create and host the store, arrange for the products to be manufactured on demand and shipped from one or more of our contract facilities, collect the revenues, and send the partner a check for the profits. We currently have stores with hundreds of K-12 schools, as well as universities, nonprofits, musicians and businesses, as well as offering military products through the Army Air Force Exchange.

In addition to the e-commerce and fulfillment services described above, we also provide design and marketing support for most partners, including assistance with setting up appropriate shops, and marketing materials for their use in reaching their target audience, including brochures, flyers and emails.

Our PropellShops operation, including its transmission of digital images over the Internet, is subject to regulation by the U.S. Postal Service, the Federal Trade Commission and various states, local, and private consumer protection and other regulatory authorities. In general, these regulations govern privacy, the manner in which orders may be solicited, the form and content of advertisements, information which must be provided to prospective customers, the time within which orders must be filled, obligations to customers if orders are not shipped within a specified period of time, and the time within which refunds must be paid if the ordered merchandise is unavailable or returned. Congress has enacted legislation to specifically regulate online commerce and communications and has addressed such issues as the transmission of certain materials to children, intellectual property protection, and taxation. Other legislation could result in additional regulation or prohibition of the transmission of certain types of content over the Internet. This regulation could limit the type of business we pursue or increase the costs to ensure compliance.

Channels

We deliver our products and services through a diverse set of online partners, including K-12 schools, universities, newspapers, musical groups, military through the Army Air Force Exchange Service and small and large businesses.

We believe having several sales channels will maximize sales potential while minimizing the risk that any underperforming channel will jeopardize the overall business.

Competition

Competition in online photo and merchandise space takes several forms. Photo sharing web sites are designed for consumers and are optimized for sharing and printing photos, and creating photo merchandise from those images. Competitors include Kodak Gallery, Shutterfly, Snapfish, Photobucket, Webshots, and social networking sites such as Facebook, as well as the web sites of photo retailers such as Walgreens, Wal-Mart and CVS.

More closely, we compete with image merchandise sites that allow artists, consumers and small businesses to create their own custom web stores featuring selected images. Competitors include Zazzle, Cafepress and Threadless, as well as school merchandise e-commerce sites such as Prep Sportswear. In the school market, there is also fragmented completion from local screen printers and similar suppliers with brick and mortar shops and long-standing relationships with schools.

After analyzing existing online players in the photo merchandise category, we believe we identified a significant underserved opportunity to partner with key business partners to provide an on demand service that most closely competes with the image merchandise companies such as Zazzle and Cafepress, but has what we believe are advantages in selecting underserved markets, as well as product quality, pricing, ease of setup and turnaround times.

In particular, Zazzle and Cafepress focus on the artist and small-group market, while we believe a large, underserved market exists in partnering with a broader range of customers, particularly schools, nonprofits, military media companies, as well as corporate and special interest partners.

In the product area, we compete in each category by carrying a mix of products that are tailored to a given market. For instance, in the school market, we poll our customers and use other forms of market research to identify product trends that particularly appeal to students, segmented by age group, and seek to innovate with offerings not available from our competitors. In working with the military market, we carry products specific to the demographic, branch of service, location, and even individual military unit again seeking to offer products or designs unavailable from competitors.

Similarly, we customize our service offerings in particular our web design, as well as the marketing campaigns and email blasts we provide to our store owner partners so that they match the needs of the market we are focusing on. For instance, when working with political organizations, we customize the web service to fulfill regulatory requirements related to political fund raising. When working with the military, we integrate payment methods unique to our military partner. When working with schools, we provide marketing emails, posters and other materials that target the particular needs of that audience.

While we do not compete primarily on price, we attempt to be very competitive in revenue sharing with our partners, and try to offer higher margins to our store owner partners than competitors. We also permit our store owners more flexibility in setting the retail pricing than competing companies do. For instance, we permit a fund raising organization to set as high a price as they like on any given item, while competitors set certain limits. Thus, we are set up so that if a store owner wishes, for fundraising purposes, to set the price of a simple T-shirt at \$100 on the basis of it being both a collectible item, and a fundraising contribution, he or she can do so. We then collect the larger amount on their behalf, and pay the store owner the difference between the amount collected and our posted wholesale price. Our competition often limits the top price that can be charged.

Intellectual property

Our PropellShops web services were created using our own technology, as well as proprietary enhancements to open source software tools. We have created a variety of artwork and other materials used in communicating, promoting and marketing our products and services. We have been issued registered trademarks for Propell®, PropellShops® as well as our logo artwork.

Insurance

We have insurance for general commercial liability with the Zurich Group in an amount of \$2 million. We have worker's compensation insurance with The Hartford in an amount equal to 100% of our payroll for the current year. We have products and completed operations insurance in the aggregate amount of \$2 million.

Operations

The Company has its headquarters in the San Francisco Bay Area, and regional sales and operations employees and sales representatives in Ohio, Connecticut and Florida. We have independent sales agents in California and Arizona.

The San Francisco area office is primarily focused on all corporate matter and PropellShops, including software development, sales, marketing strategic partnerships and business development.

We use third party manufacturers to make, customize and ship our products.

Item 1A. Risk factors

You should carefully consider the following risk factors and other information included in this Annual Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risk factors occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Available information

We file annual, quarterly, and current reports, proxy statements, and other information with the U.S. Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549.

You may call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly, and current reports, proxy statements, and other information that issuers (including Propell) file electronically with the SEC. The SEC's website is www.sec.gov.

Our website is www.propellshops.com. We are currently updating our website to provide a link to the SEC's website at www.sec.gov that will provide, free of charge, our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to those reports and forms. We will make these filings available as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. We will voluntarily provide electronic or paper copies of our filings free of charge upon request.

RISKS RELATED TO OUR COMPANY

An investment in our securities is highly speculative and involves a high degree of risk. Therefore, in evaluating us and our business you should carefully consider the risks set forth below, which are only a few of the risks associated with investing in our common stock. You should be in a position to risk the loss of your entire investment.

Because we are entering into new business lines that are unproven, it is difficult to predict if we will generate material revenues or be profitable.

Until recently, our business has been substantially dependent upon our ability to generate revenue from our subsurface etched photo crystal products. We only recently began focusing the majority of our efforts on our e-commerce web sites. Because our new business model is unproven, we may not generate material revenues from such businesses. It is too early to predict whether consumers will accept, and continue to use on a regular basis, the products generated from these new business lines since we have had very limited recent operating history in our new business lines nor significant revenues or earnings derived from such business lines. Therefore, our ability to generate revenue is uncertain and there can be no assurance that we will be able to generate significant revenue or be profitable.

Our business is difficult to evaluate because we are currently engaging in a new line of business and have very limited operating history and limited information.

The Company is currently expanding its operations and engaging in a new business line. There is a risk that we will be unable to successfully operate this new line of business or be able to successfully integrate it with our current management and structure. Our estimates of capital, personnel and equipment required for our new line of business are based on the experience of management and businesses they are familiar with. Our management has limited direct experience in our new lines of business.

We may not be profitable.

We expect to incur operating losses for the foreseeable future. For the years ending December 31, 2010 and 2009, we had net revenues of \$100,352 and \$10,717, respectively from our continuing e-commerce business. For the years ending December 31, 2010 and 2009, we sustained a net loss of \$1,670,449 and \$1,781,945, respectively. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business.

We may not be able to retain existing customers or acquire new customers.

Our future revenues and profitability depends in large part on our ability and to retain our current relationships with our customers, including eChalk and the Army Air Force Exchange and individual schools, universities, nonprofits and businesses, and attract new customers for our e-commerce websites. Our relationships with these customers depend on our satisfactorily performing our contracted services. If we do not successfully retain our current customers, or market successfully against competitors, our business, financial condition and operating results could be harmed.

We may not be able to continue as a going concern.

Our consolidated audited financial statements, report a 2010 loss from continuing operations of \$(1,576,136) and a net loss of \$(1,670,449). The opinion of our independent registered accounting firm on our audited financial statements as of and for the period ended December 31, 2010 for Propell was qualified subject to substantial doubt as to our ability to continue as a going concern. See Report of Independent Registered Public Accounting Firm and the notes to our Financial Statements.

Our future plans and operations are dependent on our raising additional capital.

To date, we have not generated enough revenue from operations to pay all of our expenses. We have recently raised debt financing under a credit facility that allows us to borrow up to \$2,000,000, of which \$1,067,500 principal amount is outstanding as of the date hereof and we have borrowed an additional \$300,000 from a shareholder under three separate short-term notes. In fact, we have used money raised in prior financings to pay some of our costs. Other than the credit facility, we have used all of the \$2.6 million we raised over the last twenty-four months in the form of convertible notes and a rights offering. We do not believe that our existing resources will be sufficient to allow us to implement our anticipated plan of operations or meet our future anticipated cash flow requirements.

We rely on key vendors and suppliers.

Our ability to sustain satisfactory levels of sales is dependent in part upon the ability of our suppliers and vendors to properly perform their function. We have no significant long-term purchase contracts or agreements to ensure continued supply, pricing or access to raw materials and equipment used in our business. While we believe that alternate sources of third-party providers are available, it is possible that our vendors might not be able to continue to meet our requirements for services or supplies, or purchase services or supplies in sufficient quantities or on terms as favorable to us as those currently available. The failure of our suppliers to supply our raw materials on a timely basis or at satisfactory prices could have a material adverse effect on our business, results of operations and financial condition. Also, changing to an alternate vendor or supplier may cause delays, reduced quality or other problems.

We may be adversely affected by actions of competitors.

The market for e-commerce products is highly competitive and still emerging. Many of our competitors have substantially greater financial, technical and other resources than we have. We face competition in personalized products from other direct marketers, online companies, and competitors in other distribution channels, including much larger companies. Many of our competitors offer similar products and services. Our ability to compete effectively depends on our ability to differentiate our services by offering innovative services and products and exemplary customer service. Although we believe we are a leader in developing and marketing innovative personalized services and products, competitors can and do provide similar services and products. There can be no assurance we will continue to compete effectively through development of innovative services and products or the provision of exemplary customer service and experience or that we will respond appropriately to industry trends or to activities of competitors.

We experience fluctuations in quarterly results.

Our quarterly operating results will fluctuate for many reasons, including:

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Seasonality of consumer gift purchases.

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Changes in consumer spending patterns,

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The mix of products we sell,

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Promotional activities we conduct,

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Price increases by our suppliers,

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Our introduction of new products,

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Our research and development activities,

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Our competitors' actions,

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Fluctuations in the direct-to-consumer market,

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Changes in usage of online commerce,

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Changes in the promotional products industry,

.
General economic influences and conditions.

As a result of the above conditions, our operating results for any period do not necessarily indicate the results that can be expected for any future period. Our operating results in a future period may be below the expectations of public market analysts and investors, which may cause the price of our common stock to decline.

We have no independent audit committee. Our full board of directors functions as our audit committee and is composed of two directors, one of whom is not considered independent. This may hinder our board of directors effectiveness in fulfilling the functions of the audit committee.

Currently, we have no separate audit committee. Our full Board of Directors functions as our audit committee and is comprised of two directors, one of whom are not considered to be "independent" in accordance with the requirements of Rule 10A-3 under the Securities Exchange Act of 1934. An independent audit committee plays a crucial role in the corporate governance process, assessing the Company's processes relating to its risks and control environment, overseeing financial reporting, and evaluating internal and independent audit processes. The lack of an independent audit committee may prevent the board of directors from being independent from management in its judgments and decisions and its ability to pursue the committee's responsibilities without undue influence. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified, independent directors, the management of our business could be compromised.

Our board of directors, which consists of two directors, acts as our compensation committee, which presents the risk that compensation and benefits paid to these executive officers who are board members and other officers may not be commensurate with our financial performance.

A compensation committee consisting of independent directors is a safeguard against self-dealing by company executives. Our board of directors acts as the compensation committee and determines the compensation and benefits of our executive officers, administers our employee stock and benefit plans, and reviews policies relating to the compensation and benefits of our employees. Although all board members have fiduciary obligations in connection with compensation matters, our lack of an independent compensation committee presents the risk that our executive officers on the board may have influence over their personal compensation and benefits levels that may not be commensurate with our financial performance.

Governmental regulation could limit our business opportunities and increase costs.

Our operations, including our transmission of digital images over the Internet, are subject to regulation by the U.S. Postal Service, the Federal Trade Commission and various states, local, and private consumer protection and other regulatory authorities. In general, these regulations govern privacy, the manner in which orders may be solicited, the form and content of advertisements, information which must be provided to prospective customers, the time within which orders must be filled, obligations to customers if orders are not shipped within a specified period of time, and the time within which refunds must be paid if the ordered merchandise is unavailable or returned. Congress has enacted legislation to specifically regulate online commerce and communications and has addressed such issues as the transmission of certain materials to children, intellectual property protection, and taxation. We believe that we are in compliance with applicable statutes and regulations, however, should such statutes and regulations be amended or interpreted more stringently, we may be unable to remain in compliance and may incur penalties and fines for noncompliance. Other legislation could result in additional regulation or prohibition of the transmission of certain types of content over the Internet. If such legislation were deemed to apply to our business, it could limit the type of business that we could pursue or increase the costs to ensure compliance.

Trading on the OTC Bulletin Board may be sporadic because it is not a stock exchange, and stockholders may have difficulty reselling their shares.

Trading in stock quoted on the OTC Bulletin Board is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. Moreover, the OTC Bulletin Board is not a stock exchange, and trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like NYSE. Accordingly, you may have difficulty reselling any of the shares you purchase from the selling stockholders.

Some of our existing stockholders can exert control over us and may not make decisions that are in the best interests of all stockholders.

As of March 30, 2011, officers, directors, and stockholders holding more than 5% of our outstanding shares collectively controlled approximately 50.45% of our outstanding common stock, without taking into account shares of common stock issuable upon conversion of any convertible securities. As a result, these stockholders, if they act

together, would be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Accordingly, this concentration of ownership may harm the market price of our shares by delaying or preventing a change in control of us, even if a change is in the best interests of our other stockholders. In addition, the interests of this concentration of ownership may not always coincide with the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements that we would not otherwise consider.

Under certain circumstances we a claim could be made that we will be responsible for the payment of certain of Crystal Magic s debts.

There is a risk that we could be a party to certain litigation involving payments owed by our Crystal Magic, Inc. subsidiary to the US Small Business Loans (the SBA) and the Orlando National Bank (Bank) in the amount of approximately \$839,000. Crystal Magic ceased operations in June 2010. In September 2010, the Bank foreclosed on the assets of Crystal Magic and sold these assets at auction; however the sale proceeds were not adequate to satisfy the outstanding remaining debt. In an agreement with Steven and Vicki Rhodes, guarantors of the Crystal Magic SBA debt, we agreed to assume the payment for these loans in the event of the bankruptcy of Crystal Magic and the demand of the SBA or the Orlando National Bank of payment under Mr. Rhodes guarantee. To date, Crystal Magic has not filed for bankruptcy and so the condition for our obligation has not been met, and even if met we believe that such agreement is unenforceable. Mr. Rhodes has placed 2,000,000 shares of our stock, owned by him, in escrow to be used by us in our discretion at any time after April 8, 2010, to pay the amounts owed by Crystal Magic under these loans. However, there can be no assurance that the shares held in escrow will have sufficient value to satisfy such debt. If Mr. Rhodes were to try to enforce the provisions of the agreement we would vigorously defend our position; however no assurance can be given that we will be successful in our defense.

We cannot guarantee that an active trading market will develop for our common stock.

There currently is not an active public market for our Common Stock and there can be no assurance that a regular trading market for our Common Stock will ever develop or that, if developed, it will be sustained. Therefore, purchasers of our Common Stock should have a long-term investment intent and should recognize that it may be difficult to sell the shares, notwithstanding the fact that they are not restricted securities. We cannot predict the extent to which a trading market will develop or how liquid a market might become.

There may be future dilution of our common stock.

If we sell additional equity or convertible debt securities, those sales could result in additional dilution to our stockholders.

We have incurred operating losses in the past and may not be able to sustain profitability in the future. Recent accounting changes may make it more difficult for us to sustain profitability.

We have experienced operating losses. If we are unable to produce our products and provide our services at commercially reasonable costs, if revenues decline or if our expenses exceed our expectations, we may not be able to sustain or increase profitability on a quarterly or annual basis. Also, we are a publicly traded company, and are therefore subject to the Sarbanes-Oxley Act of 2002, which requires that our internal controls and procedures comply with Section 404 of the Sarbanes-Oxley Act. We expect compliance to be costly and it could impact our results of operations in future periods. In addition, the Financial Accounting Standards Board now requires us to follow Statement No. 123, Share Based Payment, (FASB ASC Topic 718-10). Under this rule, companies must calculate and record in their statement of operations the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services. We expect that we will use stock options to attract, incentivize and retain our employees and will therefore incur the resulting stock-based compensation expense. This will continue to adversely affect our operating results in future periods.

Interruptions to our information technology systems, personalized-product production processes or customer service operations could damage our reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our information technology systems, personalized-product production processes and customer service operations are critical to our reputation, and our ability to attract and retain customers and maintain adequate customer satisfaction. Any interruptions that result in reduced order fulfillment performance or customer service could result in negative publicity, damage our reputation and brand and cause our business and results of operations to suffer.

Our business interruption insurance policies do not address all potential causes of business interruptions that we may experience, and any proceeds we may receive from these policies in the event of a business interruption may not fully compensate us for the revenues we may lose.

We may have difficulty managing our growth and expanding our operations successfully.

Our under-capitalization has resulted in our not being able to build our business and infrastructure as quickly as we would like. Our limited capital has placed, and will continue to place, a strain on our and their administrative and operational infrastructure. Our ability to manage our operations and growth will require us to continue to refine our operational, financial and management controls, human resource policies and reporting systems.

If we are unable to manage future expansion, we may not be able to implement improvements to our controls, policies and systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. Our ability to provide high-quality products, service and customer support could be compromised, which would damage our reputation and brand and substantially harm our and their business and results of operations.

Competitive pricing pressures may harm our business and results of operations.

Demand for our products and services is sensitive to price. Many external factors, including our production and personnel costs and our competitors' pricing and marketing strategies, can significantly impact our pricing strategies. If we fail to meet our customers' price expectations, we or they could lose customers, which would harm our and their business and results of operations.

The loss of key personnel and an inability to attract and retain additional personnel could affect our ability to successfully grow our business.

We are highly dependent upon the continued service and performance of our senior management team and key technical, marketing and production personnel, some of whom have formed critical relationships with the companies with whom we have contracts. The loss of these key employees, several of whom is at will and may terminate his or her employment relationship with us at any time, may significantly delay or prevent the achievement of our business objectives.

We believe that our future success will also depend in part on our and their continued ability to identify, hire, train and motivate qualified personnel. We and they face intense competition for qualified individuals from numerous technology, marketing, financial services, manufacturing and e-commerce companies. We may not be able to attract and retain suitably qualified individuals who are capable of meeting our growing operational and managerial requirements, or we may be required to pay increased compensation in order to do so. Our failure to attract and retain qualified personnel could impair our ability to implement our business plan.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and the rules and regulations of an exchange or the OTC-Bulletin Board. The requirements of these rules and regulations will likely continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and effective internal control over financial reporting. Significant resources and management oversight are required to design, document, test, implement and monitor internal control over relevant processes and to, remediate any deficiencies. As a result, management's attention may be diverted from other business concerns, which could harm our business, financial condition and results of operations. These efforts also involve substantial accounting related costs.

Our stock price may be volatile or may decline regardless of our operating performance.

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

price and volume fluctuations in the overall stock market;

changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;

the public's response to our press releases or other public announcements, including our filings with the SEC;

announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

introduction of technologies or product enhancements that reduce the need for our products;

market conditions or trends in our industry or the economy as a whole;

the loss of key personnel;

lawsuits threatened or filed against us;

future sales of our common stock by our executive officers, directors and significant stockholders; and

other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

We may issue preferred stock with greater rights than our common stock.

Our Certificate of Incorporation authorizes the Board of Directors to issue up to 10 million shares of preferred stock, par value \$.001 per share. The preferred stock may be issued in one or more series, the terms of which may be determined by the Board of Directors at the time of issuance without further action by stockholders, and may include voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. Any preferred stock that is issued may rank ahead of our common stock, in terms of dividends, liquidation rights and voting rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of such an issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change of control of our company. Any delay or prevention of a change of control transaction or changes in our board of directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could require substantial premium over the then current market price per share. No preferred stock is currently outstanding and we have no current plans to issue any preferred stock. However, the issuance of any such preferred stock could materially adversely affect the rights of holders of our common stock, and therefore could reduce the value of the common stock and deprive shareholders of the right to sell their shares at a premium over prevailing market prices.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease offices in Northern California. Our office is in San Anselmo and consists of approximately 1,050 square feet. Our landlord, also a shareholder of the Company, currently provides the space rent free. We believe if we lost our lease at these premises, we could promptly relocate within 30 days.

Item 3. Legal Proceedings.

There are no material legal proceedings that are pending or have been threatened against us of which management is aware.

Item 4.

REMOVED AND RESERVED

PART II**Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Price Range of Common Stock**

Our common stock trades on the OTC Bulletin board since April 23, 2010 under the symbol PROP.BB. Prior to that date, there was no active market for our common stock. The following table sets forth the high and low sale prices for our common stock for the periods indicated.

	High	Low
Fiscal Year 2010		
Second Quarter	\$ 0.25	\$ 0.15
Third Quarter	\$ 0.30	\$ 0.21
Fourth Quarter	\$ 0.25	\$ 0.25

The last reported sale price of our common stock on the OTC Bulletin board on March 29, 2011, was \$0.19 per share. As of March 30, 2011, there were approximately 80 holders of record of our common stock.

We have not paid any cash dividends on our common stock to date, and we have no intention of paying cash dividends in the foreseeable future. Whether we declare and pay dividends is determined by our board of directors at their discretion, subject to certain limitations imposed under Delaware corporate law. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our board of directors.

Recent Sales of Unregistered Securities; Uses of Proceeds from Registered Securities

In March 2008, we issued \$22,780 in convertible promissory notes to 43 note holders. These promissory notes converted by their terms into 2,278,000 shares of our common stock upon the merger acquisitions of Mountain Capital, LLC and Auleron 2005, LLC with wholly owned subsidiaries of the Registrant. The offering and sale of the promissory notes and the shares of common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of

the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, share certificates bearing a legend stating that such shares are restricted. This restriction ensured that these shares will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In May 2008, we issued \$1,730,000 in 3% non-recourse convertible promissory notes to 18 note holders. These promissory notes automatically converted into shares of the Registrant's common stock at a rate of one share of common stock for each \$.50 of principal, at the close of our a PIPE (private investment in public equity) financing in March 2009, or at a 25% discount to the PIPE price, whichever is less. The offering and sale of the promissory notes qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, promissory notes bearing a legend stating that such notes are restricted. This restriction ensured that these promissory notes will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

On April 10, 2008, we issued 5,400,000 shares of our common stock to five individuals in exchange for securities upon the mergers of Crystal Magic, Inc., Mountain Capital, LLC and Auleron 20005, LLC with us. This offering and sale of shares of the Registrant's common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance by the Registrant did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, share certificates bearing a legend stating that such shares are restricted. This restriction ensured that these shares will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

On May 6, 2008, we issued 2,230,952 shares of our common stock to five individuals in exchange for securities upon the mergers of Mountain Capital, LLC and Auleron 2005, LLC with us. This offering and sale of shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, share certificates bearing a legend stating that such shares are restricted. This restriction ensured that these shares will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In March 2009, we issued 8,650,000 shares of our common stock in connection with the conversion of convertible notes in the principal amount of \$1,730,000 upon consummation of our PIPE offering. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction. 2,810,000 shares were subsequently registered in our registration statement on Form S-1 that was declared effective by the Securities and Exchange Commission on December 18, 2008.

In March 2009, we issued to 36 individuals 1,585,474 shares of our common stock and warrants exercisable into 2,378,211 shares of common stock at a price of \$.27 per share. The offering and sale of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) and Regulation D under the Act since the issuance by us did not involve a public offering and the requirements of Regulation D were met. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In connection with the cancellation of the Amended Note with Lanai Investments, LLC, an entity controlled by Steven Rhodes, the Company issued Steven Rhodes warrants exercisable for 100,000 shares of the Company's common stock upon the same terms as the warrants issued to investors in the beginning of 2009 in the Company's PIPE transaction. The offering and sale of the securities qualified for exemption under Section 4(2) of the Act since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to only one person and because of the manner of the offering. In addition, the investor had the necessary investment intent as required by Section 4(2) since he agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general

solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In March 2009, we issued 60,000 shares of our common stock to The Guild for services rendered. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In May 2009, we issued to 2 individuals 1,481,482 shares of our common stock and warrants exercisable into 2,222,223 shares of common stock at a price of \$.27 per share. The offering and sale of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) and Regulation D under the Act since the issuance by us did not involve a public offering and the requirements of Regulation D were met. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In June 2009, we issued 55,000 shares of our common stock to The Ardmore Tree for services rendered. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In September 2009, the Company issued 741,667 shares to three former employees in lieu of \$200,250 in severance payments. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In September 2009, we issued a note to an entity with a principal amount of up to \$500,000. This Note was amended in March 2010, increasing the amount available up to \$1 million and amended again in March 2011 to increase the amount we could borrow under the note to \$2 million. As of December 31, 2010, we had received and were obligated to repay \$1,067,500 pursuant to the terms of the Note. In May 2010, the Company issued the lender 25,000 shares. The issuance of the Note and the shares qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investor had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In February 2010, the Company issued 100,000 stock options to an employee and 25,000 stock options to a consultant. Such options subsequently expired when the employee and consultant were terminated. In May 2010, the Company issued 25,000 stock options to an employee and 25,000 stock options to a consultant. Such options subsequently expired when the employee and consultant were terminated. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The issuance was not a public offering as defined in Section 4(2) because the issuance was made to an insubstantial number of persons. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This issuance was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In May 2010, we issued 250,000 shares to a consultant for services rendered and to be rendered. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In June 2010, the Company borrowed \$100,000 under a one year unsecured note from a shareholder. Interest accrues on the note at the rate of 8% per annum. The note has no financial covenants. In December 2010, the shareholder lent us an additional \$100,000 under similar terms with a due date of December 15, 2011. In February 2011, the shareholder lent us an additional \$100,000 and is due February 10, 2012. Both of these accrue interest at the rate of 12% per annum and have no financial covenants. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933 (the Act) since the issuance by us did not involve a public offering. The offering was not a public offering as defined in Section 4(2) because the offer and sale was made to an insubstantial number of persons and because of the manner of the offering. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This offering was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

In October 2010 the Board authorized fully vested stock options for 100,000 shares each to be issued to James Wallace, and Paul Scapatici, both officers of the Company. In addition, Mr. Mark Kalow, a Board member was issued options for 300,000 shares, to vest quarterly over four years. The issuance of the securities qualified for exemption under Section 4(2) of the Securities Act of 1933

(the Act) since the issuance by us did not involve a public offering. The issuance was not a public offering as defined in Section 4(2) because the issuance was made to an insubstantial number of persons. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensured that these securities will not be immediately redistributed into the market and therefore be part of a public offering. This issuance was done with no general solicitation or advertising by us. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Act for this transaction.

Securities Authorized For Issuance under Equity Compensation Plans

PROPELL CORPORATION 2008 STOCK OPTION PLAN

Our board of directors adopted the Propell Corporation 2008 Stock Option Plan (the Plan) in April 2008 to promote our long-term growth and profitability by (i) providing our key directors, officers and employees with incentives to improve stockholder value and contribute to our growth and financial success and (ii) enable us to attract, retain and reward the best available persons for positions of substantial responsibility. A total of 5,000,000 shares of the Company's Common Stock have been reserved for issuance upon exercise of options granted pursuant to the Plan. The Plan allows the Company to grant options to employees, officers and directors of the Company and its subsidiaries; provided that only employees of the Company and its subsidiaries may receive incentive stock options under the Plan. The Company has granted a total of 2,099,000 options as of March 30, 2011. Set forth below is detail with respect to issuances under the Plan.

Plan category	Number of securities issued under equity compensation plan	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	1,974,000	\$ 0.37	3,026,000
Total	1,974,000	0.37	3,026,000

Item 6. Selected Financial Data

This item is omitted as not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our results of operations and financial condition.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statement as of December 31, 2010 and 2009 which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined below in Critical Accounting Policies.

FORWARD-LOOKING STATEMENTS

Certain statements made in this report may constitute forward-looking statements *on our current expectations and projections about future events*. These forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. *In some cases you can identify forward-looking statements by terminology such as may, should, potential, continue, expects, anticipates, intends, plans, believes, estimates, and similar expressions.* These statements are based on our current beliefs, expectations, and assumptions and are subject to a number of risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this report, and we assume no obligation to update these forward-looking statements whether as a result of new information, future events, or otherwise, other than as required by law. In light of these assumptions, risks, and uncertainties, the forward-looking events discussed in this report might not occur and actual results and events may vary significantly from those discussed in the forward-looking statements.

Overview

Propell Corporation is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. (CMI), a Florida Corporation, merged with an acquisition subsidiary of Propell s, which was formed solely for the purpose of the merger of CMI with and into Propell. As part of this transaction, the Company issued an aggregate of 5,400,000 shares to the former shareholders of CMI.

On May 6, 2008, the Company acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) (AMS) and Auleron 2005, LLC (d/b/a Auleron Technologies) (AUL) and made each a wholly owned subsidiary. A total of 2,094,864 shares of the Company s common stock were issued to the members of Mountain Capital, LLC and a total of 136,088 shares of the Company s common stock were issued to the members of AUL.

The mergers were completed in order to form a consolidated enterprise with subsidiaries that each had experience in complementary parts of the imaging and personalized products industries, and to expand their capabilities both online and at retail.

In 2009, the Company ceased operating these subsidiaries, and in early 2010 we liquidated, our AMS and Auleron operations. Prior to June 2010, Propell s business model consisted of both the CMI laser etching business (three-dimensional laser images engraved inside solid crystal blocks (such as paperweights) based on photographs of consumers) and our e-commerce and fulfillment business for image-based personalized products and services via custom websites for schools, nonprofits, media companies and other organizations (PropellShops). In June 2010, we decided to focus our efforts solely on our e-commerce business and closed our CMI operations. In September 2010, Orlando National Bank, a secured creditor of our CMI subsidiary, foreclosed on CMI s assets and subsequently sold these assets.

Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management jud