

Propell Corporation.
Form 10-Q/A
April 26, 2011

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

Amendment No. 3 to
FORM 10 – Q/A

[mark one]

- ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2010

- o **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 333-139354

PROPELL CORPORATION

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

26-1856569
(IRS Employer Identification Number)

305 San Anselmo Avenue, Suite 300, San Anselmo, CA 94960

(Address of principal executive offices including zip code)

(415) 747-8775

(Registrant'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 ☒ No ☐

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 shell company (as defined in Rule 12b-2 of the Exchange Act).
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):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

Number of shares outstanding of the issuer's common stock as of the latest practicable date: 20,846,132 shares of common stock, \$.001 par value per share, as of August 12, 2010.

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

Explanatory Note

This Amendment No. 3 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 is being filed to reflect (i) the restatement of our Balance Sheets, Operating Statements, Statement of Changes in Stockholders Equity, Statements of Cash Flows and Footnotes due to recognition of amortization of our website asset for the three months (approximately \$25,000) and six months (approximately \$50,000) ended June 30, 2010 as well as (ii) the reclassification to discontinued operations of business operations of our subsidiaries that have ceased operations.

PROPELL CORPORATION

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PART I. FINANCIAL INFORMATION**Propell Corporation and Subsidiaries****Consolidated Balance Sheets****As of June 30, 2010 and December 31, 2009****(Unaudited)****Restated**

	June 30,	December 31,
<u>Assets</u>	2010	2009
Current Assets		
Cash	\$ 103,737	\$ 95,484
Accounts receivable (net of allowances)	14,053	1,405
Prepaid expenses	1,786	4,587
Deposits - current	1,499	1,499
Assets from Discontinued Operations	8,314	141,096
Total Current Assets	129,389	244,071
Property and Equipment, net	3,018	3,559
Other Assets		
Website URL, net	4,800	5,600
Website assets, net	353,477	403,597
Total Other Assets	358,277	409,197
Total Assets	\$ 490,684	\$ 656,827
<u>Liabilities and Stockholders' Deficit</u>		
Current Liabilities		
Accounts payable	\$ 129,782	\$ 124,298
Accrued liabilities	1,510	870
Accrued interest related parties	63,284	12,962
Notes payable related parties	100,000	-
Convertible notes payable related party	882,500	407,500
Liabilities from Discontinued Operations	1,243,120	1,283,303
Total Liabilities	2,420,196	1,828,933
Stockholders' Deficit		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 20,846,132 issued and outstanding; (22,482,575 issued and outstanding 2009)	20,846	22,482

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Additional paid-in capital	1,693,518	1,694,614
Accumulated deficit	(3,643,876)	(2,889,202)
Total Stockholders' Deficit	(1,929,512)	(1,172,106)
Total Liabilities and Stockholders' Deficit	\$ 490,684	\$ 656,827

The accompanying notes are an integral part of the financial statements.

F-1

Propell Corporation and Subsidiaries**Consolidated Statements of Operations****(Unaudited)****Restated**

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net Revenues	\$ 35,719	\$ 2,746	\$ 46,936	\$ 3,325
Cost of Goods Sold	28,117	4,366	36,235	5,197
Gross Profit (Loss)	7,602	(1,620)	10,701	(1,872)
Operating Expenses	394,182	237,408	672,266	378,717
Loss from Operations	(386,580)	(239,028)	(661,565)	(380,589)
Other Income (Expense)	-	-	-	-
Loss from Continuing Operations	(386,580)	(239,028)	(661,565)	(380,589)
Loss from Discontinued Operations	(103,282)	(60,953)	(93,110)	(178,270)
Net Loss	\$ (489,862)	\$ (299,981)	\$ (754,675)	\$ (558,859)
Net Loss Per Share - Basic and Diluted	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Weighted average number of shares outstanding during the period				
basic and diluted	21,889,140	20,978,653	22,184,218	17,180,814

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Consolidated Statements of Stockholders' Deficit

As of June 30, 2010

(Unaudited)

Restated

	Common Stock		Additional Paid-in Capital	Distributions to Affiliates	Accumulated Deficit	Total Stockholders' Deficit
	\$0.001 Par Value Shares	Amount				
Balance, January 29, 2008 (Inception)		\$	\$	\$	\$	\$
Issuance of common stock to acquire Crystal Magic, Inc.	5,400,000	5,400	(5,400)			
Issuance of common stock to acquire Auleron 2005, LLC	136,088	136	(136)			
Issuance of common stock to acquire Mountain Capital, LLC	2,094,864	2,095	381,709			383,804
Conversion of convertible notes to common stock	2,278,000	2,278	20,502			22,780
Reclassification of intercompany payable			61,048			61,048
Distributions to affiliate				(938,664)		(938,664)
Net loss for the period ended December 31, 2008					(1,107,257)	(1,107,257)
Balance, December 31, 2008	9,908,952	9,909	457,723	(938,664)	(1,107,257)	(1,578,289)
Recognition of stock based compensation in connection with stock option grants			43,440			43,440
Recognition of shares issued in connection with services rendered	856,667	857	285,793			286,650
Conversion of convertible notes into common stock	8,650,000	8,650	1,763,014			1,771,664
Issuance of common stock in rights offering	3,066,956	3,066	825,012			828,078
Distributions to affiliate				(122,542)		(122,542)
				1,061,206		1,061,206

Reclassification of affiliate distributions as a result of change in control							
Reclassification of affiliate equity and payables due to change in control							
				(1,680,368)			(1,680,368)
Net loss for the year ended December 31, 2009							
					(1,781,945)		(1,781,945)
Balance, December 31, 2009	22,482,575	22,482	1,694,613	-	(2,889,201)		(1,172,106)
Net loss for the six months ended June 30, 2010							
					(754,675)		(754,675)
Recognition of stock repurchases							
	(1,886,443)	(1,886)	(43,114)				(45,000)
Recognition of stock based compensation in connection with stock option grants							
			1,019				1,019
Recognition of stock based compensation							
	250,000	250	41,000				41,250
Balance, June 30, 2010	20,846,132	\$	20,846	\$	1,693,518	\$	(3,643,876) \$ (1,929,512)

The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries**Consolidated Statements of Cash Flows****(unaudited)****Restated**

	For the six months ended June 30,	
	2010	2009
Cash Flows From Operating Activities:		
Net loss for the period	\$ (754,675)	\$ (558,859)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	541	66
Amortization	50,919	49,085
Issuance of common stock for services	41,250	26,400
Issuance of stock options in connection with employment services	1,019	-
Changes in Assets and Liabilities		
Accounts receivable	(12,648)	(1,501)
Prepaid expenses	2,801	-
Accounts payable	5484	(22,518)
Accrued liabilities	640	19,028
Accrued interest related parties	50,322	(32,870)
Cash Used In Operating Activities from Continuing Operations	(614,347)	(521,169)
Cash Provided by (Used In) Operating Activities from Discontinued Operations	92,600	(183,526)
NET CASH USED IN OPERATING ACTIVITIES	(521,747)	(704,695)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(5,420)
Development of website asset	-	(99,616)
Net Cash Provided By (Used In) Investing Activities from Continuing Operations	-	(105,036)
Net Cash Provided By (Used In) Investing Activities from Discontinued Operations	-	-
NET CASH USED IN INVESTING OPERATIONS	-	(105,036)
Cash Flows From Financing Activities:		
Proceeds from rights offering	-	869,742
Proceeds from convertible note related party	475,000	-
Proceeds from notes payable related party	100,000	-
Repurchase of common stock	(45,000)	-
Net Cash Provided by Financing Activities from Continuing Operations	530,000	869,742
Net Cash Provided by Financing Activities from Discontinued Operations	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	530,000	869,742

Net increase in cash and cash equivalents	8,253	60,011
Cash and cash equivalents at beginning of period	95,484	132,058
Cash and cash equivalents at end of period	\$ 103,737	\$ 192,069

Supplemental Cash Flow Information:

Cash paid for interest	\$ 0	\$ 0
Cash paid for income taxes	\$ 0	\$ 0

Supplemental Non-Cash Investing and Financing Information:

Conversion of convertible notes payable to stock	\$ 0	\$ (1,730,000)
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The accompanying notes are an integral part of the financial statements.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1 - Organization and Summary of Significant Accounting Policies

(A) Description of the Business

Propell Corporation, a Delaware corporation (Propell or the Company) is an e-commerce and fulfillment provider of image-based personalized products and services.

(B) Basis of Presentation & Principles of Consolidation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the full year.

The unaudited interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which contains the audited financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operation, for the period ended December 31, 2009. The interim results for the period ended June 30, 2010 are not necessarily indicative of results for the full fiscal year.

All significant inter-company accounts and transactions have been eliminated in consolidation.

(C) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions impact, among others, the following: the amount allocated to goodwill and other intangible assets, the estimated useful lives for amortizable intangible assets and property, plant and equipment, the fair value of warrants and stock options granted for services or compensation, respectively, estimates of the probability and potential magnitude of contingent liabilities and the valuation allowance for deferred tax assets due to continuing operating losses.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the consolidated financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

(D) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has a standardized approach to estimate and review the collectability of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues, which may impact the collectability of these receivables or reserve estimates. Revisions to the allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense. Receivables deemed uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts. There were no recoveries during the three months ended June 30, 2010.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

(E) Revenue Recognition

The Company records revenue when all of the following have occurred: (1) persuasive evidence of an arrangement exists, (2) the service is completed without further obligation, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured.

The Company primarily recognizes revenue for services rendered upon completion of the order.

(F) Risks and Uncertainties

The Company's operations will be subject to significant risk and uncertainties including financial, operational, regulatory and other risks associated, including the potential risk of business failure. The recent global economic crisis has caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These conditions not only limit our access to capital, but also make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities.

(G) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At June 30, 2010 and December 31, 2009, respectively, the Company had no cash equivalents.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At June 30, 2010 and December 31, 2009, the balance exceeded the federally insured limit by \$0 and \$0, respectively.

(H) Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Items of property and equipment with costs greater than \$1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives, as follows:

Description	Estimated Useful Life
Office equipment and furniture	2 to 5 years
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease

(I) Inventory

Inventory is stated at cost using the FIFO (first in, first out) method.

(J) Long Lived Assets

Long-lived assets are reviewed for impairment 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 future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In connection with its CMI subsidiary, the Company took an impairment charge of \$85,527 during the year ended December 31, 2009.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

(K) Net Loss per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) less preferred dividends for the period by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) less preferred dividends by the weighted average number of common shares outstanding including the effect of share equivalents. The Company's share equivalents consist of 1,649,000 stock options and 4,600,434 warrants. Since the Company reported a net loss for the six months ended June 30, 2010 and the year ended December 31, 2009, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

(L) Fair Value of Financial Instruments

The carrying amounts of the Company's short-term financial instruments, (including accounts receivable, accounts payable and accrued liabilities) approximate fair value due to the relatively short period to maturity for these instruments.

(M) Share-Based Payment Arrangements

Generally, all forms of share-based payments, including stock option grants, restricted stock grants and stock appreciation rights are measured at their fair value on the awards' grant date, based on the estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The expense resulting from share-based payments are recorded in cost of goods sold or general and administrative expense in the consolidated statement of operations, depending on the nature of the services provided.

(N) Recent Accounting Pronouncements

In April 2009, the FASB issued guidance now codified as FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which amends previous guidance to require disclosures about fair value of financial instruments in interim as well as annual financial statements in the current economic environment. This pronouncement was effective for periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on our business, financial condition or results of operations; however, these provisions of FASB ASC Topic 820 resulted in additional disclosures with respect to the fair value of our financial instruments.

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, *Subsequent Events*, which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement was effective for interim or fiscal periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on our business, results of operations or financial position; however, the provisions of FASB ASC Topic 855 resulted in additional disclosures with respect to subsequent events.

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now codified as FASB Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, as the single source of authoritative non-governmental U.S. GAAP. FASB ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

(N) Recent Accounting Pronouncements (continued)

These provisions of FASB ASC Topic 105 were effective for interim and annual periods ending after September 15, 2009 and, accordingly, were effective for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on our business, financial condition or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of FASB ASC Topic 105, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update became effective for the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective for the interim and annual reporting period beginning January 1, 2011. We will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update does not have a material effect on our consolidated financial statements.

Note 2 Reclassifications

As a result of the exit from Crystal Magic's laser etching business in June 2010 and Mountain Capital ceasing operations in 2009, and in accordance with generally accepted accounting principles, the CMI and Mountain Capital business operations have been reclassified to discontinued operations in our Consolidated Balance Sheets, our Consolidated Statements of Operations and Consolidated Statements of Cash Flows. Amounts in prior periods have been reclassified to conform to this presentation.

Note 3 Correction of Errors and Restatements

The Company has restated its Consolidated Balance Sheets, its Consolidated Statements of Operations, its Consolidated Statement of Stockholders' Deficit, its Consolidated Statements of Cash Flows and its footnotes, for the three and six months ended June 30, 2010 and 2009 to correct an error in its accounting. The Company did not originally amortize its website asset during these periods.

		June 30, 2010		December 31, 2009	
Financial Statement	Line Item	Corrected	Previously Stated (1)	Corrected	Previously Stated (1)
Balance Sheet	Website Assets, net	353,478	501,201	403,197	501,201
Balance Sheet	Total other assets	358,278	506,001	409,197	523,516
Balance Sheet	Total assets	490,684	638,408	656,827	754,432
Balance Sheet	Accumulated deficit	(3,643,876)	(3,496,152)	(2,889,202)	(2,791,597)
Balance Sheet	Total stockholder's deficit	(1,929,512)	(1,781,788)	(1,172,106)	(1,074,501)
Balance Sheet	Total liabilities and stockholders' deficit	490,684	638,408	656,827	754,432
Statement of cash flows	Net loss	(754,675)	(704,555)	(558,859)	(511,374)
Statement of cash flows	Amortization	50,919	800	49,085	1,600

Propell Corporation and Subsidiaries**Notes to Consolidated Financial Statements****June 30, 2010****(Unaudited)****Note 3 Correction of Errors and Restatements**

		Three months ended June 30, 2010		Three months ended June 30, 2009	
		Previously		Previously	
		Corrected	Stated (1)	Corrected	Stated (1)
Income statement	Operating expenses	394,182	369,122	237,408	212,473
Income statement	Loss from operations	(386,580)	(361,520)	(239,028)	(214,093)
Income statement	Loss from continuing operations	(386,580)	(361,520)	(239,028)	(214,093)
Income statement	Net loss	(489,862)	(464,802)	(299,981)	(275,046)

		Six months ended June 30, 2010		Six months ended June 30, 2009	
		Previously		Previously	
		Corrected	Stated (1)	Corrected	Stated (1)
Income statement	Operating expenses	672,266	622,146	378,717	858,492
Income statement	Loss from operations	(661,565)	(611,445)	(380,589)	(333,104)
Income statement	Loss from continuing operations	(661,565)	(611,445)	(380,589)	(333,104)
Income statement	Net loss	(754,675)	(704,555)	(558,859)	(511,374)

(1) After taking into account the reclassifications discussed in Note 2, above

Note 4 - Property and Equipment

Property and Equipment consisted of the following at June 30, 2010 and December 31, 2009.

June 30, 2010December 31, 2009

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Furniture and fixtures	\$	500	\$	500
Computer and equipment		4,486		3,902
Total		4,986		4,402
Less accumulated depreciation/amortization		(1,968)		(843)
Property and equipment, net	\$	3,018	\$	3,559

Note 5 - Prepaid Expenses

At June 30, 2010 prepaid expenses consisted solely of prepaid insurance in the amount of \$1,786. At December 31, 2009 prepaid expenses consisted solely of prepaid insurance in the amount of \$4,587.

Note 6 - Inventory

At June 30, 2010 all inventory was written off as it was wholly owned by our CMI subsidiary which has ceased operations and is included on the statement of operations in loss from discontinued operations.

Note 7 Website Assets

In 2009, the company developed its primary website and capitalized the expenses incurred from programming in the amount of \$501,201. The Company began amortizing its website asset in 2009.

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 8 Accrued Liabilities

At June 30, 2010 and December 31, 2009 accrued expenses and taxes consisted of the following:

	June 30, 2010	December 31, 2010
Payroll	\$ 0	\$ 240
Taxes	610	630
Other	900	0
Total	\$ 1,510	\$ 870

Note 9 - Notes and Convertible Notes Payable

In 2009 the Company borrowed \$407,500 under the terms of a convertible note payable. During the six months ended June 30, 2010 the Company borrowed an additional \$475,000 on the same note. This note is convertible to shares of the Company's common stock at the lenders option at the lower of \$0.27 per share or a twenty-five percent (25%) discount from the next issuance of common stock by the Company. The original note was due on February 28, 2010.

In March 2010, the note was amended to change the due date to June 30, 2010 and the maximum amount of the Note was increased to \$1 Million, of which the Company has borrowed \$882,500 as of June 30, 2010.

Subsequent to June 30, 2010 the holder of the convertible note has agreed to convert the notes to shares immediate proceeding the closure of the DBH deal. (See Note 10 Subsequent Events)

In June 2010 the Company borrowed \$100,000 under the terms of a note payable. This note is due on December 31, 2010 or upon the closing of the DBH deal, whichever occurs first. The note also carries an interest of 8%.

The Company's Crystal Magic subsidiary has four (4) notes all of which are either guaranteed or funded by the United States Small Business Administration (SBA). At June 30, 2010 the notes, which were all in default totaled an approximate aggregate of \$848,916 and carry a monthly payment amount of approximately \$8,700 and is reflected on the balance sheet in liabilities from discontinued operations.

Note 10 - Stockholders' Deficit

(A) Common Stock Issuances of Issuer

For the six months ended June 30, 2010

During the six months ended June 30, 2010, the Company issued 250,000 shares of common stock for services rendered having a fair value of \$41,250.

For the Year ended December 31, 2009

During the year ended December 31, 2009, the Company issued 856,667 shares of common stock for services rendered, having a fair value of \$286,650. Of this, 741,667 shares were issued in connection with severance agreements.

During the year ended December 31, 2009, the Company issued 8,650,000 shares of common stock in connection with the conversion of convertible notes in the principal amount of \$1,730,000 (\$0.20 per share).

During the year ended December 31, 2009, the Company issued 3,066,956 shares of common stock in two rights offerings for proceeds of \$828,078 (\$0.27 per share).

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 10 - Stockholders Deficit (continued)

(B) Stock Option Plan

In 2008 the Company's Board of Directors approved the Company's 2008 Stock Option Plan (the "Stock Plan") for the issuance of up to five (5) million shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The exercise price of stock options under the Stock Plan is determined by the compensation committee of the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. At June 30, 2010 and December 31, 2009, there were 1,649,000 and 1,499,000 options issued and outstanding under the Stock Plan, respectively.

In the event of termination, the Company will cease to recognize compensation expense. There is no deferred compensation recorded upon initial grant date, instead, the fair value of the share-based payment is recognized ratably over the stated vesting period.

The Company has applied fair value accounting for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes assumptions used in the six months ended June 30, 2010 are as follows:

Six Months ended June 30, 2010	
Exercise price	\$0.15 - \$0.27
Expected dividends	0%
Expected volatility	150%
Risk free interest rate	2-02% to 3.59%
Expected life of option	5-10 years
Expected forfeitures	0%

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The Company records stock based compensation based upon the stated vested provisions in the related agreements, with recognition of expense recorded on the straight line basis over the term of the related agreement. The vesting provisions for these agreements have various terms as follows:

.

annually over one, two or three years

.

Monthly over one year

During the six months ended June 30, 2010, the Company granted 150,000 options to employees and consultants having a fair value of \$47,773 based upon the Black-Scholes option pricing model.

		Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance	December 31, 2008	1,075,000	\$ 0.50		
Granted		749,000	\$ 0.27		
Exercised		0	\$ -		
Forfeited		325,000	\$ 0.43		
Balance	December 31, 2009	1,499,000	\$ 0.40		
Granted		150,000	\$ 0.23		
Exercised		0	\$ -		
Forfeited		0	\$ -		
Balance	June 30, 2010 - outstanding	1,649,000	\$ 0.43	8.42 years	0
Balance	June 30, 2010 exercisable	634,583	\$ 0.48	7.91 years	0

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

Note 11 - Subsequent Events

The Company has evaluated for subsequent events between the balance sheet date of June 30, 2010 and August 16, 2010, the date the financial statements were issued.

On June 21, 2010 the Company announced that on June 14, 2010 it entered into a merger agreement (the "Merger Agreement") by and among the Company, Designbyhumans.com, a California corporation ("DBH") and DBH Acquisition Corporation, a Delaware corporation and wholly owned subsidiary of the Registrant ("Acquisition Sub"). Acquisition Sub was formed on June 10, 2010 for the purpose of pursuing the merger transaction contemplated by the Merger Agreement (the "Merger"). Upon closing of the Merger Agreement, DBH will merge with and into the Acquisition Sub with DBH being the surviving entity. The Merger Agreement was duly considered and approved by the board of directors of the Company as well as the board of directors and all of the stockholders of DBH.

As a result of the Merger, DBH will become a wholly-owned subsidiary of the Company and the shareholders of DBH shall have acquired approximately 45% of the Company's issued and outstanding stock. DBH's obligation to consummate the Merger is conditioned upon the Company receiving a commitment for financing of at least \$1,500,000 and the conversion by all current note holders, other than note holders of Crystal Magic, Inc., of their debt to equity. The Company's obligation to consummate the Merger is conditioned upon DBH having reduced certain of its debt to certain of its stockholders and the conversion by certain stockholders of their debt to equity.

Note 12 - Going Concern

The Company has negative working capital, has incurred operating losses since inception, and its operating activities to date have required financing from outside institutions and related parties. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company will continue to need outside financing to support its internal growth. Management continues to seek funding to pursue its business plans.

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Item 2. Management's Discussion and Analysis of Plan of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the notes hereto and our audited financial statements and notes thereto for the fiscal year ended December 31, 2009. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as anticipate, believe, intends, or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under Risk Factors in Part I, Item 1A of our financial statements and notes for the fiscal year ended December 31, 2009.

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 June 30, 2010 and June 30, 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, expect, 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.

Company 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 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 business. 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. The Company is in the process of settling with creditors and expects to dissolve AMS by the end of 2010. In furthering this decision to concentrate on e-commerce, in June 2010, the Company ceased operations at its Crystal Magic subsidiary.

OUR PLAN OF OPERATIONS

Our Company

We are a Delaware corporation providing e-commerce and fulfillment for image-based personalized products and services via custom websites for schools, nonprofits, media companies and other organizations. Through our proprietary online system, we allow partners to create instant e-commerce web sites (marketed as PropellShops). 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 embedded into, or linked from, 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 our revenue to the customer.

All of our current operations are conducted through Propell. Because of actions taken by the U.S. Small Business Administration (SBA) to secure all of the assets of CMI, management was recently forced to cease CMI's operations. In 2009 we also ceased doing business through our Mountain Capital subsidiary. We assigned inventory and our warranty responsibilities and interaction with customers to a third party. We are in the process of liquidating Mountain Capital. Our third subsidiary, Auleron 2005, LLC, discontinued its operations in 2008; in November 2009, the decision was made to liquidate Auleron since it had no operations and management determined its resources were better focused on its Internet business. Auleron was formally liquidated in January 2010. Prior to our formation in January 2008, each subsidiary was independently owned.

Our current customers include eChalk, the Los Angeles Times, the US military, and numerous K-12 schools and universities, through e-commerce web sites. In addition, our management has a long track record of delivering a variety of consumer and photo products, services and logistics to partners, including Wal-Mart, Walgreens, CVS and Rite-Aid.

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.

Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management judgments due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Specific risks associated with these critical accounting policies are discussed throughout this MD&A, where such policies have a material effect on reported and expected financial

results. For a detailed discussion of the application of these and other accounting policies, refer to the individual Notes to the Financial Statements for the three and six months ended June 30, 2010.

Revenue Recognition

The Company recognizes revenues when products are shipped or services are delivered to customers, pricing is fixed or determinable, and collection is reasonably assured. Net revenues include product sales net of returns and allowances.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Estimates are based on historical experience, management expectations for future performance, and other assumptions as appropriate. Key areas affected by estimates include the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows. We re-evaluate estimates on an ongoing basis; therefore, actual results may vary from those estimates.

Fair Values of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The carrying amount for borrowings under the financing agreement approximates fair value because of the variable market interest rates charged for these borrowings. We adopted FASB ASC Topic 820, *Fair Value Measurements & Disclosures*, for financial assets and financial liabilities in the first quarter of fiscal 2009, which did not have an impact on our financial statements.

Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. We place our cash with high quality financial institutions and at times may exceed the FDIC insurance limit. We extend credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses, as required.

Recently Issued Accounting Standards

For a discussion of the adoption and potential impacts of recently issued accounting standards, refer to the "Recent Accounting Pronouncements" section of Note 1, "Reorganization and Summary of Significant Accounting Policies," in the Notes to Financial Statements.

Consolidated Results of Operations for the three months ended June 30, 2010 and June 30, 2009

For the three months ended June 30, 2010 as compared to the three months ended June 30, 2009, net revenues were \$35,719 and \$2,746, respectively; cost of goods sold were \$28,117 and \$4,366, respectively; operating expenses were \$394,182 and \$237,408. For the three months ended June 30, 2009, our e-commerce business generated a 1,200% increase over the first quarter of 2009, due to our beginning to market our products. We generated a 21% gross profit as compared to a negative gross profit in the comparable period in 2009 as the 2009 amounts included manufacturing start-up costs including sample goods.

Operating expenses increased 66% year over year, as we increased marketing and sales expenses to promote our products. In addition, net loss from discontinued operations was \$103,282 and \$60,953, respectively. The increased losses from discontinued operations stemmed from our Crystal Magic operation only being included in the 2009 results for a portion of the quarter.

Consolidated Results of Operations for the six months ended June 30, 2010 and June 30, 2009

For the six months ended June 30, 2010 as compared to the six months ended June 30, 2009, net revenues were \$46,936 and \$3,325, respectively; cost of goods sold were \$36,235 and \$5,197, respectively; operating expenses were \$672,266 and \$378,717, respectively. For the six months ended June 30, 2010, revenue increased over 1,300%,

although from a small base as we began to actively market the web site. In addition, net loss from discontinued operations was \$93,110 and \$178,270, respectively.

Six Months Ended June 30, 2010 - Cash Flow Activity

Propell's primary use of cash for the six months ended June 30, 2010, was our losses from both continuing and discontinued operations, offset by an influx of \$575,000 in cash from notes payable. Net cash used in operating activities from continuing operations was \$614,347 for the six months ended June 30, 2010.

Net cash provided by financing activities was \$530,000 which included \$475,000 from issuance of a convertible note and \$100,000 from issuance of a note, partially offset by \$45,000 used to reacquire common stock.

Our ability to continue to execute on our plan of operations is contingent on our ability to raise additional capital to further develop our Internet initiatives and expand our marketing of our existing product line.

Liquidity and Capital Resources.

To date, our primary sources of cash have been funds raised from the sale of our securities, including convertible debt offerings, notes and revenue derived from our CMI and Mountain Capital subsidiaries; however as a result of the cessation of these operations we will no longer receive revenues from them, and therefore will have to rely on outside funding until such time as our PropellShops product derives enough revenue to sustain business operations. Although we anticipate that our Internet business will eventually provide the needed revenue, it is difficult for us to assess exactly when this will occur.

In an effort to improve our operating results and increase our revenues we will continue to seek strategic partners such as DBH. On June 14, 2010 we and our wholly owned subsidiary entered into a merger agreement with Designbyhumans.com. Upon closing of the Merger Agreement, DBH will merge with and into the Acquisition Sub with DBH being the surviving entity. DBH's obligation to consummate the Merger is conditioned upon us receiving a commitment for financing of at least \$1,500,000 and the conversion by all

current note holders, other than note holders of Crystal Magic, Inc., of their debt to equity. There can be no assurance that such financing will be available or if available that it will be on favorable terms.

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development effort. Based on our current plans, we believe that our cash will not be sufficient to enable us to meet our planned operating needs in the next 12 months.

Our CMI subsidiary is in default on four separate loans which in the aggregate is approximately \$848,916, and which are either made or guaranteed by the U.S. Small Business Administration (SBA). In September 2010, the bank managing the loans for the SBA seized substantially all of the assets of CMI and subsequently sold these assets.

However, the actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing include strategic relationships, public or private sales of our shares or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time, and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, our partnership with DBH may be at risk and we may be unable to carry out the rest of our business plan. As a result, we may have to significantly limit our operations and our business, financial condition and results of operations would be materially harmed.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (Exchange Act), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer (CEO), who also serves as our principal financial and accounting officer, of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report.. Based upon that evaluation, the Company's CEO concluded that the Company's disclosure controls and procedures as of June 30, 2010 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO, as appropriate, to allow timely decisions regarding required disclosure. The Company's CEO has concluded, that as of the date of the filing of this Amendment, the Company's disclosure controls and procedures are effective and that all material weaknesses and significant deficiencies have been completely remediated due to the retention of an additional bookkeeper and a consultant who are integrally involved in the preparation of the financial statements and all disclosure.

(b) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds update issuances for the quarter

During the six months ended June 30, 2010, the Company issued 250,000 shares of common stock to an individual for services rendered having a fair value of \$37,500. The securities were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended (the Act), since the issuance by us did not involve a public offering. In addition, the shares were clearly marked as restricted. This restriction ensures that these shares will not be immediately redistributed into the market.

Item 3. Defaults upon senior Securities

Our CMI subsidiary is in default on four separate loans which in the aggregate is approximately \$848,916, and which are either made or guaranteed by the U.S. Small Business Administration (SBA). As a result, the SBA has informed CMI of their plans to seize CMI's assets which were pledged to secure the loans.

Item 4. Removed and Reserved

None.

Item 5. Other Information

None.

Item 6. Exhibits

Regulation

Number	Exhibit
31.1	Certification of the Chief Executive Officer and Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act

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SIGNATURES

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

DATE: April 26, 2011

PROPELL CORPORATION

(Registrant)

By: */s/Edward L. Bernstein*
Edward L. Bernstein President and Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

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5. Comprehensive Income

The following table shows the computation of comprehensive income:

	Three Months Ended March 31,	
	2011	2010
Net income	\$ 301,577	\$ 333,743
Other comprehensive income:		
Foreign currency translation adjustments	6,086	39,210

Total comprehensive income	\$	307,663	\$	372,953
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Other comprehensive income (loss) is primarily comprised of gains and losses on the translation of foreign currency denominated financial statements. Adjustments resulting from these translations are accumulated and reported as a component of other comprehensive income (loss) in stockholders' equity section of the balance sheet.

6. Subsequent Events

Subsequent events have been considered through the date when this Form 10-Q was filed. Based on the evaluation, the Company did not identify any subsequent events that would have required adjustment to or disclosure in the unaudited consolidated financial statements.

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

Statements made in this Quarterly Report on Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties including those identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

Overview

Our primary focus is to provide real-time systems solutions, including equipment and software, and services to our customers in the areas of hydrological, meteorological and oceanic monitoring. We design, manufacture and market these products and services to a diversified customer base consisting of federal, state, local and foreign governments, engineering companies, universities and hydropower companies. Our products and services enable these entities to monitor and collect hydrological, meteorological and oceanic data for the management of critical water resources, for early warning of potentially disastrous floods, storms or tsunamis, for the optimization of hydropower plants and for providing real-time weather conditions at airports.

Our key products are the SatLink2 Transmitter/Logger, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor, and Tempest and XConnect systems software. These are the essential components of most systems and are provided to customers as off-the-shelf equipment or as part of a custom system. The SatLink2 is a key product because it functions both as a transmitter and logger. The Xpert and XLite are more powerful dataloggers that have significantly more logging capability and communications options than the SatLink2. Our Tempest and XConnect systems software allow us to provide turn-key systems solutions to our customers.

We began fiscal year 2011 with a backlog of approximately \$11,748,000 as compared to beginning fiscal year 2010 with a backlog of approximately \$11,908,000. We anticipate that we will continue to experience quarterly fluctuations in our sales and revenues in 2011. Operating results will depend upon the product mix and upon the timing of project awards.

International sales, which totaled 39% of revenues for 2010, are a significant portion of our revenues. We believe that international revenues will grow as a percentage of our total business as we plan to develop stronger international partnerships and expand our international sales opportunities. International sales are however difficult to forecast because they are frequently delayed due to the different governmental procurement and approval processes. Our domestic business is highly dependent upon government business. Contracts and purchase orders with Federal, state and local government agencies represented approximately 39% of our 2010 revenues.

We are committed in our ongoing sales, marketing and research and development activities to sustain and grow our sales and revenues from our products and services. We expect our sales and marketing, research and development and general and administrative expenses to increase moderately in 2011 as compared to 2010 due to planned spending on sales and marketing activities and on new products and applications.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of financial condition and results of operations are based upon the financial statements, which have been prepared in accordance with generally accepted accounting principles as recognized in the United States of America. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, the valuation of inventory, and valuation of deferred tax assets and liabilities, useful lives of intangible assets, warranty obligations and accruals. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For a complete description of accounting policies, see Note 2 to our financial statements included in the Company's Form 10-K for the year ended December 31, 2010. There were no significant changes in critical accounting estimates in the first quarter of 2011.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenues represented by certain items reflected in our statements of operations:

	Three Months Ended March 31,	
	2011	2010
Net sales and revenues	100.0%	100.0%
Cost of sales and revenues	62.1	61.0
Gross profit	37.9	39.0
Selling, general and administrative expenses	18.9	20.2
Research and Development expenses	9.7	8.5
Operating income	9.3	10.3
Interest and other income	0.4	0.3
Income before income taxes	9.7	10.6
Income taxes	3.5	3.8
Net income	6.2%	6.8%

Three months ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Net Sales and Revenues

Revenues for the first quarter ended March 31, 2011 were flat at \$4,880,619 as compared to revenues of \$4,899,840 in the first quarter of 2010. Net sales and revenues are broken down between sales of standard products and sales of systems and services. Standard products had a net sales and revenue decrease of 22% to \$2,288,624 from \$2,937,974 in 2010 due primarily to decreased shipments to federal agencies. Net sales and revenues for systems and services increased 32% to \$2,591,995 from \$1,961,866 in 2010 due primarily to increased international project and systems sales.

Overall domestic revenues decreased 5% to \$2,136,484 in the first quarter of 2011 versus \$2,257,745 in 2010 while international revenues increased 4% to \$2,744,333 in the first quarter of 2011 versus \$2,642,095 in the same period in 2010. Customer orders or bookings in the first quarter of 2011 decreased 19% to \$3,479,122 as compared to \$4,277,885 in the first quarter of 2010.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues was 62% for the first quarter of 2011 as compared to 61% for the same period in 2010. Standard product cost of sales was approximately 50% in the first quarter of 2011 as compared to 56% in 2010. The decrease was primarily due to a change in the product mix. Cost of sales for systems and services was 73% in the first quarter of 2011 as compared to 69% in the first quarter of 2010. The increase was primarily due to higher project costs in the operation of our hydrological services division based in Florida.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$919,606 for the first quarter of 2011 from \$989,957 for the same period in 2010. Selling, general and administrative expenses as a percentage of revenues decreased to 19% for the first quarter of 2011 from 20% for the same period in 2010. The decrease was primarily due to lower audit fees and lower selling costs due to the reduction of a contract employee who provided systems sales assistance.

Research and Development Expenses

Research and development expenses increased to \$474,568 for the first quarter of 2011 from \$415,796 for the same period in 2010. The increase was due to increased systems software development costs and increased product development costs. We released our new 8310 Data Logger early in 2011 which is a replacement for the 8210 Data Logger. We continue to focus on enhancements to SutronWIN which is a webhosting service for the hosting of customer data. We are also investing in other new products that we believe will improve our competitive position and expand our growth.

Interest and Other Income, Net

Due to our cash position, we did not use our line of credit during the first quarter of 2011. We had interest income for the quarter ended March 31, 2011 of \$18,125 as compared to interest income of \$12,985 for the quarter ended March 31, 2010.

Income Taxes

Income tax expense for the quarter ended March 31, 2011 was \$171,000 as compared to an income tax expense of \$185,000 for the quarter ended March 31, 2010. The provisions for income taxes represent an effective income tax rate of 36% in 2011 and 2010.

Liquidity and Capital Resources

Cash and cash equivalents were \$9,048,976 at March 31, 2011 compared to \$9,627,961 at December 31, 2010. Working capital increased to \$17,482,032 at March 31, 2011 compared with \$17,086,621 at December 31, 2010.

Net cash used by operating activities was \$376,127 for the quarter ended March 31, 2011 as compared to net cash provided by operating activities of \$2,324,990 for the quarter ended March 31, 2010. The decrease was due to significant reductions in accounts payable and accrued expenses as well as an increase in accounts receivable.

Net cash used by investing activities was \$226,313 for the quarter ended March 31, 2011 as compared to net cash used by investing activities of \$649,574 for the quarter ended March 31, 2010. The decrease is primarily due to a decrease in restricted cash. Restricted cash reflects bid and performance bonds that are secured by the Company's cash.

Net cash provided by financing activities was \$17,370 for the quarter ended March 31, 2011 as compared to net cash used by financing activities of \$0 for the quarter ended March 31, 2010. Cash provided in 2011 was primarily due to proceeds from the exercise of an employee stock option.

We have a revolving credit facility of \$3,000,000 with BB&T. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2011 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During the first quarter of 2011, there were no borrowings on the line of credit.

We frequently bid on and enter into international contracts that require bid and performance bonds. At March 31, 2011 and December 31, 2010, a commercial bank had issued standby letters of credit in the amount of \$1,505,000 and \$1,583,000 that served as either a bid or performance bond. The amount available to borrow under the line of credit was reduced by this amount.

Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing credit line will provide adequate resources for supporting operations during fiscal 2011. Although there can be no assurance that our revolving credit facility will be renewed, management believes that, if needed, it would be able to find alternative sources of funds on commercially acceptable terms.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of the Annual Report on Form 10-K for the fiscal year ended December 31, 2010. The Company's exposure to market risk has not changed materially since December 31, 2010.

Item 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of March 31, 2011, the end of the fiscal period covered by this report on Form 10-Q. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on our financial statements. We were named in a compensation claim under the Indian Anti-Trust Law that was filed in 2005 before The Monopolies and Restrictive Trade Practices Commission (the "Commission") in New Delhi, India. The claim was dismissed by the Commission in March 2011.

Item 6. Exhibits

31.1 Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).

32 Certification of the President and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sutron Corporation
(Registrant)

May 13, 2011
Date

By: /s/ Raul S. McQuivey
Raul S. McQuivey
President and Chief Executive Officer
(Principal Executive Officer)

May 13, 2011
Date

By: /s/ Sidney C. Hooper
Sidney C. Hooper
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

