

Propell Corporation.
Form 10-Q/A
March 07, 2011

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

Amendment No. 2 to
FORM 10-Q/A

[mark one]

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

For the quarterly period ended: March 31, 2010

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

For the transition period from _____ to _____

Commission File Number 005-53488

PROPELL CORPORATION

(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

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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: 22,482,575 shares of common stock, \$.001 par value per share, as of May 12, 2010.

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

EXPLANATORY NOTE

This Amendment No. 2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 is being filed to revise the Controls and Procedures Disclosure and the Certifications.

PROPELL CORPORATION

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Propell Corporation and Subsidiaries****Consolidated Balance Sheets**

<u>Assets</u>	March 31, 2010 (unaudited)	December 31, 2009 (audited)
Current Assets		
Cash	\$ 243,705	\$ 121,689
Accounts receivable	2,597	4,176
Prepaid expenses	7,557	4,587
Inventory	81,863	95,144
Deposits - current	1,499	1,499
Total Current Assets	337,221	227,095
Property and Equipment, net	3,117	3,821
Other Assets		
Intangible assets, net	7,843	9,314
Website URL, net	5,200	5,600
Website assets, net	501,201	501,201
Deposits - long term	7,401	7,401
Total Other Assets	521,645	523,516
Total Assets	\$ 861,983	\$ 754,432

Liabilities and Stockholders' Deficit**Current Liabilities:**

Accounts payable	\$ 488,143	\$ 511,167
Accrued liabilities	52,796	6,648
Deferred revenue	2,865	-
Due to related parties	-	51,714
Convertible notes payable	782,500	420,462
Notes payable - current portion	104,400	104,400
Total Current Liabilities	1,430,704	1,094,391

Long Tern Liabilities

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Notes payable	744,516	734,542
Total Long Term Liabilities	744,516	734,542
Total Liabilities	2,175,220	1,828,933
Stockholders' Deficit		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 22,482,575 and 22,482,575 shares issued and outstanding	22,482	22,482
Additional paid-in capital	1,695,632	1,694,614
Accumulated deficit	(3,031,351)	(2,791,597)
Total Stockholders' Deficit	(1,313,237)	(1,074,501)
Total Liabilities and Stockholders' Deficit	\$ 861,983	\$ 754,432

See accompanying notes to consolidated financial statements

Propell Corporation and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	For the three months ended March 31,	
	2010	2009
Net Revenues:	\$ 99,754	\$ 56,104
Cost of Goods Sold:	21,398	57,681
Gross Profit:	78,356	(1,577)
Operating Expenses:	375,164	283,798
Loss from Operations	(296,808)	(285,375)
Other Income (Expense):	57,054	30,089
Net Loss	\$ (239,754)	\$ (255,286)
Net Loss Per Share - Basic and Diluted	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding during the period - basic and diluted	22,482,575	13,340,777

See accompanying notes to consolidated financial statements

Propell Corporation and Subsidiaries
Consolidated Statement of Stockholders' Deficit

As of March 31, 2010

(unaudited)

	Common Stock		Additional	Distributions	Accumulated	Total
	\$0.001 Par Value		Paid-in	To	Deficit	Stockholders'
	Shares	Amount	Capital	Affiliates	Deficit	Deficit
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

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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)
Reclassification of affiliate distributions as a result of change in control				1,061,206		1,061,206
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					(1,684,340)	(1,684,340)
Balance, December 31, 2009	22,482,575	22,482	1,694,614	-	(2,791,597)	(1,074,501)
Net loss for the three months ended March 31, 2010					(239,754)	(239,754)
Recognition of stock based consulting in connection with stock option grants			679			679
Recognition of stock based compensation in connection with stock option grants			339			339
Balance, March 31, 2010	22,482,575	\$ 22,482	\$ 1,695,632	\$ -	\$ (3,031,351)	\$ (1,313,237)

See accompanying notes to consolidated financial statements

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

	For the three months ended March 31,	
	2010	2009
Cash Flows From Operating Activities:		
Net loss	\$ (239,754)	\$ (255,286)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock option grants	1,019	-
Foregiveness of debt		
Inventory reserve		-
Inventory writeoff	-	1,576
Depreciation & amortization	1,104	-
Writedown of fixed assets	-	
Changes in Assets and Liabilities		
Decrease in accounts receivable	1,579	(4,031)
Decrease (increase) in deferred charges	-	1,842
Decrease in deposits	-	3,404
Decrease in inventory	13,281	46,524
Decrease in prepaid expenses	(2,970)	-
Increase (decrease) in accounts payable	(23,024)	(29,324)
Decrease in due to related parties	(51,714)	(208)
Increase in customer deposits	-	-
Increase (decrease) in deferred revenue	2,865	(8,443)
Increase (decrease) in accrued expenses and taxes	46,148	21,054
Net Cash Used In Operating Activities	(251,466)	(222,892)
Cash Flows From Investing Activities:		
Acquisitions of property and equipment	1,471	-
Acquisition of website URL	-	-
Development of website asset	-	(23,575)
Cash received from the consolidation of Crystal Magic	-	-
Net Cash Provided By (Used In) Investing Activities	1,471	(23,575)
Cash Flows From Financing Activities:		
Distributions to affiliate - Crystal Magic		(126,558)

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Proceeds from rights offering		428,078
Increase (decrease) in intercompany payable to Auleron 2005	-	(3,111)
Proceeds from convertible notes payable	362,038	-
Payments on long term debt	9,974	-
Net Cash Provided By Financing Activities	372,012	298,409
Net increase in cash and cash equivalents	122,016	51,942
Cash and cash equivalents at beginning of period	121,689	136,660
Cash and cash equivalents at end of period	\$ 243,705	\$ 188,602
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 63,044	\$ -
Cash paid for income taxes	\$ -	\$ -

See accompanying notes to consolidated financial statements

Propell Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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 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 March 31, 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 March 31, 2010.

(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 March 31, 2010 and December 31, 2009, respectively, the Company had cash of \$243,705 and \$121,689 and 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 March 31, 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. The Company took an impairment charge of \$85,527 during the year ended December 31, 2009.

(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 1,624,000 stock options and 4,600,434 warrants. Since the Company reported a net loss for the three months ended March 31, 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. 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 Property and Equipment

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

	3/31/2010		12/31/2009
Leasehold improvements	\$ 6,825	\$	6,825
Furniture and fixtures	37,971		37,971
Computer and equipment	11,782		11,782
Total	56,578		56,578
Less accumulated depreciation/amortization	(53,461)		(52,757)
Property and equipment, net	\$ 3,117	\$	3,821

Note 3 Prepaid Expenses

At March 31, 2010 prepaid expenses consisted solely of prepaid insurance and rent in the amount of \$7,557. At December 31, 2009 prepaid expenses consisted solely of prepaid insurance in the amount of \$4,587.

Note 4 Website Assets

In 2009, the company developed its primary website and capitalized the expenses incurred from programming in the amount of \$501,201. As of March 31, 2010 this amount remained unchanged.

Note 5 Accrued Expenses and Taxes

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