

Propell Corporation.  
Form 10-K  
April 13, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**Form 10-K**

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

**For Fiscal Year Ended December 31, 2010**

**000-53488**

Commission file number

**PROPELL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**305 San Anselmo Avenue, Suite 300**

**San Anselmo, CA 94960**

(Address of principal executive offices)

**(415) 747-8775**

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(Registrant's telephone number, including area code)

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

**Common Stock**

(Title of Class)

**None**

(Name of each exchange on which registered)

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

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

Yes  No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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

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

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**PROPELL CORPORATION AND SUBSIDIARIES**

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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**PART I**

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

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

**Item 1. Business**

**Our Company**

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

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

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

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

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

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

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

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

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

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

### **Market size/opportunity**

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

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

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

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

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



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

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

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

## **Our Strategy**

### **Overview**

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

### **How we address the competitive opportunity**

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

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

### **Our product and service offerings**

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

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

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

## **Channels**

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

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

## **Competition**

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

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

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

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

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

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

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

### **Intellectual property**

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

### **Insurance**

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

### **Operations**

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

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

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

### **Item 1A. Risk factors**

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

### **Available information**

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

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

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

## **RISKS RELATED TO OUR COMPANY**

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

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

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

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

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

**We may not be profitable.**

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

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

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

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

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

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

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





**We rely on key vendors and suppliers.**

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

**We may be adversely affected by actions of competitors.**

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

**We experience fluctuations in quarterly results.**

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

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Seasonality of consumer gift purchases.

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Changes in consumer spending patterns,

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The mix of products we sell,

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Promotional activities we conduct,

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Price increases by our suppliers,

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Our introduction of new products,

.  
Our research and development activities,

.  
Our competitors' actions,

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Fluctuations in the direct-to-consumer market,

.  
Changes in usage of online commerce,

.  
Changes in the promotional products industry,

.  
General economic influences and conditions.

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

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

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

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

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

**Governmental regulation could limit our business opportunities and increase costs.**

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

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

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

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

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

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

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

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

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

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

**There may be future dilution of our common stock.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



price and volume fluctuations in the overall stock market;

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

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

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

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

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

the loss of key personnel;

lawsuits threatened or filed against us;

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

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

**Item 3. Legal Proceedings.**

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

**Item 4.**

REMOVED AND RESERVED

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

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

	<b>High</b>	<b>Low</b>
<b>Fiscal Year 2010</b>		
Second Quarter	\$ 0.25	\$ 0.15
Third Quarter	\$ 0.30	\$ 0.21
Fourth Quarter	\$ 0.25	\$ 0.25

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

## Securities Authorized For Issuance under Equity Compensation Plans

### PROPELL CORPORATION 2008 STOCK OPTION PLAN

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

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

## Item 6. Selected Financial Data

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

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

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

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

### FORWARD-LOOKING STATEMENTS

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

## Overview

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

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

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

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

## Critical Accounting Policies

Management believes that the critical accounting policies and estimates discussed below involve the most complex management judTD valign=top width=690 colspan=7>

## Website

All of the Company s governance-related documents are available on its website at [www.dimon.com](http://www.dimon.com). Available documents include the Company s Corporate Governance Guidelines, Code of Conduct, and charters of the Audit, Executive Compensation, and Governance & Nominating Committees. When changes are made to any of these documents, updated copies are posted on the website as soon as practical thereafter.

### Written Request

Copies of the Company's governance documents are also available, free of charge, by written request addressed to: Corporate Secretary, DIMON Incorporated, 512 Bridge Street, Danville, VA 24541.

### *Code of Conduct*

DIMON's Code of Conduct, formerly the Compliance Guide, was first adopted in 1997 and predates the NYSE requirement. The Code of Conduct is our guide to ethical and lawful conduct. It clearly defines the Company's expectations for legal and ethical behavior on the part of every DIMON director, officer and employee.

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The Code of Conduct also governs DIMON's principal financial officer and principal accounting officer. It is designed to deter wrongdoing and promote honest and ethical conduct in all aspects of the Company's affairs.

Any waiver of the Code of Conduct, for any director, officer or employee, would require approval by the Board of Directors and would be disclosed immediately thereafter to shareholders via the Company's website, [www.dimon.com](http://www.dimon.com).

### *Corporate Governance Guidelines*

The Board of Directors adopted Corporate Governance Guidelines effective April 1, 2004. The Guidelines, in conjunction with the charters of key Board committees, inform shareholders, employees, customers and other constituents of the Board's principles as a governing body.

### *Governance & Nominating Committee Processes*

DIMON's Board of Directors has a Governance & Nominating Committee that is composed entirely of independent directors and governed by a charter. The Committee charter is available on the Company's website, [www.dimon.com](http://www.dimon.com).

As stated in the charter, it is the responsibility of the Committee to identify and evaluate potential candidates to serve on the Board. Candidates may be identified through a variety of means, including professional or personal contacts of directors, shareholder recommendations, or a third party firm engaged in the recruitment of directors.

Candidates are assessed by the Committee in view of the responsibilities, qualifications and independence requirements set forth in the Corporate Governance Guidelines. Candidate assessment begins with a review of the candidate's background, education, experience and other qualifications. Candidates viewed favorably by the

Committee then meet, either individually or collectively, with the Chairman of the Board, the Chair of the Governance & Nominating Committee, and other directors as appropriate, prior to being recommended for election to the Board.

The invitation to join the Board of Directors is extended only after a candidate's qualifications have been reviewed by the Committee, the Committee has formally recommended the candidate to the Board for approval, and the Board has approved the candidate's election by a majority vote. Invitations are extended on behalf of the Board by the Chairman.

The Committee may engage the services of a third party to assist in the recruitment of directors as necessary. To date, the Committee has not engaged the services of such a firm.

#### *Minimum Director Qualifications*

In order to qualify for service on the DIMON Incorporated Board of Directors, an individual must possess the following characteristics: integrity; international business experience; the ability to actively participate in and contribute to the deliberations of the Board; the capacity and desire to represent the balanced, best interests of the shareholders; and sufficient time available to devote to the responsibilities of a director. Determination of whether an individual meets these qualifications are made in the business judgment of the Board.

#### *Categorical Standards for Director Independence*

For a director to be deemed independent, the Board of Directors of DIMON must affirmatively determine that the director has no material relationship with DIMON either directly or as a partner, shareholder or officer of an organization that has a relationship with DIMON. In making this determination, the Board applies the following standards:

A director who is an employee, or whose immediate family member is an executive officer, of DIMON, is not independent until three years after the end of such employment relationship. Employment as an interim Chairman or Chief Executive Officer will not disqualify a director from being considered independent following such employment.

A director who receives (or whose immediate family member, serving as an executive officer, receives) more than \$100,000 per year in direct compensation from DIMON is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation (excluding director and committee fees and pensions or other forms of deferred compensation for prior service, provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or Chief Executive Officer will not count toward the \$100,000 limitation.

A director who is affiliated with or employed by (or whose immediate family member is affiliated with or employed by) a present or former internal or external auditor of DIMON is not independent until three years after the end

of either the affiliation or the employment or auditing relationship.

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A director who is employed (or whose immediate family member is employed) as an executive officer of another company where any of DIMON's present executives serve on that company's compensation committee is not independent until three years after the end of such service or employment relationship.

A director who is an executive officer or an employee (or whose immediate family member is an executive officer) of a company that makes payments to, or receives payments from, DIMON for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues is not independent until three years after falling below such threshold.

*Shareholder Nominations 2005 Annual Meeting*

Shareholders may propose nominees for consideration by the Governance & Nominating Committee. The Company's Bylaws mandate that certain procedures and deadlines be adhered to in order for nominations to be considered:

Nominations must be sent to the Corporate Secretary, DIMON Incorporated, 512 Bridge Street, Danville, Virginia, 24541.

Nominations must include, to the extent known by the nominating shareholder: the nominee's name, age, address, principal occupation.

Nominations must include the nominating shareholder's name, address and number of shares owned.

Nominations for the 2005 Annual Meeting must be received not earlier than June 12, 2005 nor later than July 7, 2005.

The Governance & Nominating Committee will consider all nominations that are received from shareholders in accordance with the stated guidelines. Shareholder nominations will be evaluated in view of the current composition of the Board and the responsibilities, qualifications and independence requirements set forth in the Corporate Governance Guidelines. The Committee will thereafter make its recommendation to the Board as to whether a candidate should be nominated for election to the Board.

*Shareholder Proposals 2005 Annual Meeting*

To be considered for inclusion in the Company's Proxy Statement for the 2005 Annual Meeting, shareholder proposals must be submitted in writing to the Corporate Secretary, DIMON Incorporated, 512 Bridge Street, Danville, Virginia, 24541, by March 16, 2005. Shareholder proposals must be submitted in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, the laws of the Commonwealth of Virginia, and the Bylaws of the Company.

*Shareholder Communications with the Board*

Shareholders may communicate with the Board of Directors, any committee of the Board, the Lead Independent Director or any individual director as appropriate. Shareholder communications must be made in writing to the Corporate Secretary, DIMON Incorporated, 512 Bridge Street, Danville, Virginia 24543. The Secretary will determine in his good faith judgment, as instructed by the Board, which shareholder communications to relay to the applicable directors.

See *Shareholder Nominations* and *Shareholder Proposals* for guidelines specific to those types of communications with the Board.

*Director Attendance at Annual Meetings of Shareholders*

It is our policy that directors attend the annual meetings of shareholders. Twelve of the thirteen directors then in office attended last year's annual meeting.

**AUDIT MATTERS**

*Audit Committee Members & Meetings*

DIMON's Board of Directors has an Audit Committee that is composed of Dr. Keller (Chairman) and Messrs. C. R. Green, Johnson and Wade. The Board has determined that each of the Audit Committee members meets the requirements for independence set forth by the New York Stock Exchange in Section 303A.02 of the Listed Company Manual and by the SEC in Exchange Act Rule 10A-3. The Committee met eight times during fiscal year 2004.

*Audit Committee Charter*

The Audit Committee is governed by a written charter adopted by the Board of Directors. The Audit Committee charter is available on the Company's website, [www.dimon.com](http://www.dimon.com), and is also attached as Appendix A.



### *Financial Literacy and Expertise*

The Board, upon recommendation of the Governance & Nominating Committee, has determined that each member of the Audit Committee is financially literate, as that term is interpreted by the Board in its business judgment. The Board has further determined that Dr. Keller meets the requirements of an audit committee financial expert, as that term is defined by the SEC in Item 401(h) of Regulation S-K. As stated above, Dr. Keller has been determined to be independent from management.

### *Other Audit Committee Service*

The Company currently does not limit the number of audit committees on which its Audit Committee Members may serve. Dr. Keller currently serves on the audit committees of seven companies (including DIMON). The Board has determined that Dr. Keller's audit committee service does not impair his ability to serve on DIMON's Audit Committee based on the following factors: 1) four of the seven audit committee memberships are with publicly traded closed-end registered investment companies within a single fund complex; 2) the extent of his financial expertise; 3) the time constraints related to his other professional endeavors are minimal.

### *Audit Committee Functions*

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the Company's accounting and financial reporting practices, and the quality and integrity of the Company's financial reports. This includes the oversight of DIMON's financial statements provided to any governmental or regulatory body, the public, or other users; the effectiveness of DIMON's internal control process; and DIMON's engagement of independent auditors. The Committee's functions are described more fully in the section on *Board Committees*, above, and in the charter attached as Appendix A.

### *Audit Committee Report*

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61.

The Committee has discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board, including Board Standard No. 1, and considered whether the provision of non-audit services (as described below under *Audit and Non-Audit Fees*) is compatible with maintaining the auditors' independence.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the transitional fiscal year ended March 31, 2004 for filing with the Securities and Exchange Commission.

**Audit Committee:**

Thomas F. Keller, Chairman

C. Richard Green, Jr.

James E. Johnson, Jr.

Martin R. Wade III

*Independent Auditors*

A representative of Ernst & Young LLP, the Company's independent auditors for the fiscal year ended March 31, 2004, will be present at the annual meeting, will have an opportunity to make a statement if they wish to do so, and will be available to respond to appropriate questions.

The Board of Directors, upon recommendation of the Audit Committee, has selected Ernst & Young LLP as the Company's auditors for the fiscal year April 1, 2004 to March 31, 2005.

*Policy for Pre-Approval of Audit and Non-Audit Services*

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services include audit services, audit-related services, tax services and other services. Pre-approval is detailed as to the particular service or category of service and is subject to a specific budget. The Audit Committee requires the independent auditors and management to report on the actual fees charged for each category of service at Audit Committee meetings throughout the year.

During the year, circumstances may arise when it may become necessary to engage the independent auditors for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engagement. The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. The Chairman of the Audit Committee must report on such pre-approvals at the next scheduled Audit Committee meeting.

The Committee's pre-approval policy was effective May 6, 2003, as required by the applicable regulations. All engagements of the independent auditors since that date have been pre-approved by the Committee in accordance with the policy. The policy has not been waived in any instance.

*Audit and Non-Audit Fees*

During the fiscal years ended June 30, 2003 and March 31, 2004, Ernst & Young LLP, the Company's independent auditors, billed the Company the fees set forth below in connection with services rendered:

	<b>FY 2003</b>	<b>FY 2004</b>
<b>Audit Fees</b> <sup>(1)</sup>	\$ 1,310,843	\$ 1,838,410
<b>Audit-Related Fees</b> <sup>(2)</sup>	13,765	36,402
<b>Tax Fees</b> <sup>(3)</sup>	72,154	38,288
<b>All Other Fees</b> <sup>(4)</sup>	---	---
<b>Total</b>	\$ 1,396,762	\$ 1,913,100
	=====	=====

(1) *Audit Fees.* Audit Fees consist of professional services rendered in the audit of the Company's annual financial statements, review of the Company's quarterly financial statements, as well as work that generally

only the independent auditor can reasonably be expected to provide, such as comfort letters, statutory audits, attest services, consents and assistance with reporting requirements.

(2) *Audit-Related Fees.* Audit-Related Fees consist of assurance and related services performed by the independent auditor that are reasonably related to the performance of the audit or review of financial statements and may include, among others, employee benefit plan audits, due diligence related to mergers and acquisitions, internal control reviews, and consultation regarding financial accounting and reporting standards.

(3) *Tax Fees.* Tax Fees consist of services performed by the independent auditor for tax compliance, tax planning, and tax advice.

(4) *All Other Fees.* There were no fees billed or services rendered by Ernst & Young during fiscal years 2003 and 2004 other than those described above.

**COMPENSATION MATTERS***Director Compensation*

Directors who are employees of the Company or its subsidiaries or who serve as paid consultants to the Company are not compensated for their services as director. Non-employee directors (directors who are neither employees nor paid consultants of the Company) receive an annual cash retainer, as follows:

<b>Type of Service</b>	<b>Annual Retainers</b>
Board Member	\$20,000
Audit Committee Chair	+ \$5,000
Committee on Executive Compensation Chair	+ \$3,000
Audit Committee Member	
Executive Committee Chair	+ \$2,000
Governance & Nominating Committee Chair	

Non-employee directors also receive a fee of \$1,500 for each board meeting attended in person or by phone and \$1,000 for each committee meeting attended in person or by phone.

Pursuant to the DIMON Incorporated 2003 Incentive Plan (the "2003 Incentive Plan"), non-employee directors may be granted common stock, performance shares, or options to purchase common stock for a per share exercise price equal to the fair market value of one share of common stock on the date of grant. The 2003 Incentive Plan was approved by shareholders on November 6, 2003 and incorporates the Omnibus Stock Incentive Plan (the "Prior Plan"). Under the Prior Plan, on August 26, 2003, upon approval by the Board, each non-employee director serving on that date was awarded 2,250 options to purchase common stock for a per share exercise price of \$6.95, the closing price of DIMON common stock on the date of grant. Additionally, each non-employee director was awarded 2,250 shares of restricted stock, with the exception of Mr. Lanier, who was awarded 12,250 shares of restricted stock for his service as Non-executive Chairman from May 1999 to March 2003. In total, 27,000 stock options and 37,000 shares of restricted stock were awarded to non-employee directors during fiscal year 2004. The stock options were immediately exercisable pursuant to the Prior Plan, while the restricted stock had a vesting date of one year from the date of grant.

In addition, DIMON's non-employee directors are eligible to participate in a Compensation Deferral Plan, which was approved by the Board on June 23, 2003. A non-employee director may elect to defer all or any portion of the cash or equity based compensation received and have the deferred amount credited to a notional account under the Compensation Deferral Plan. Cash compensation deferred is adjusted monthly for investment gains and losses using the Lehman Aggregate 20-year Bond Index as a benchmark. Stock based compensation deferred is adjusted monthly for gains and losses using the month-end closing price of DIMON common stock as a benchmark. The Compensation Deferral Plan is unfunded. Withdrawals from the Plan are not permitted until the termination of a participating director's service on the Board.

*Committee on Executive Compensation Report on Executive Compensation*

**Compensation Philosophy and Programs**

DIMON's Committee on Executive Compensation (the Committee) is comprised of three independent directors whose role is to oversee the development and management of total compensation levels and programs for the Company's executive officers. The Committee's principal objectives in fulfilling its role for DIMON include:

Enhancing the Company's ability to attract, motivate, and retain highly qualified and knowledgeable executives who are critical to the long-term success of DIMON

Establishing and maintaining executive compensation levels and programs that are fully competitive with comparable organizations

Developing and maintaining executive compensation programs that encourage higher levels of job performance through the use of performance-based short- and long-term incentives

Reinforcing management's commitment to enhance shareholder value by aligning the interests of key executives with those of the Company's shareholders

In achieving the above objectives, the Committee reviews extensive survey information on pay levels and compensation practices compiled from time to time with the help of an independent consultant. The comparison group for competitive compensation information includes the peer companies in the *Stock Performance Graph*, as well as a broader group of companies with operating characteristics and revenues similar to DIMON. The Committee strives to provide a direct compensation package to DIMON executives at target performance that is fully competitive with the median total pay packages for the comparison group. The direct compensation package for DIMON's executive officers includes base salary, annual incentives, and long-term incentives in the form of stock option and restricted stock grants.

**Base Salary**

The base salary levels for executive officers other than the Chief Executive Officer (CEO) are established by the Committee and reflect salaries for like positions in the comparison group described above. The Committee, either as a Committee or together with the other independent directors, as directed by the Board, determines CEO base salary using similar competitive salary information. DIMON places substantial emphasis on performance-driven pay

delivered through short- and long-term incentives, therefore base salary ranges are established such that the range maximum is positioned at approximately the average salary of the broader comparison group. Base salaries are adjusted periodically, based on competitive market changes, individual and corporate performance, modifications in job responsibilities, and the executive's position within his or her respective salary range.

### **Annual Incentive**

DIMON's Management Incentive Plan (MIP) allows the Committee to provide direct financial incentives in the form of annual cash payments to six executive officers and other officers and key employees upon the achievement of predetermined performance objectives. At the beginning of each fiscal year, the Committee establishes threshold, target and maximum performance goals for cash incentives to key employees, with the associated opportunities expressed as percentages of base salary. For fiscal 2004, annual incentives were based 70% on pretax income and 30% on individual performance. No award is payable unless the pretax income threshold goal is achieved. The Plan provides for target awards of 65% for the Chairman and Chief Executive Officer, 50% for the President and Chief Operating Officer, and 35% of salary for other key executives, with maximum awards of 130%, 100%, and 70% of salary, respectively. The annual incentive payouts are made after the end of the fiscal year.

### **Long-Term Incentives**

The Committee's primary objective in granting stock options and other long-term equity-based incentives is to allow key employees to participate in the success of the Company through stock ownership, to provide a strong direct link between employee compensation and the interests of shareholders, and to encourage recipients to focus on the long-term performance of the Company.

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The Committee administers the 2003 Incentive Plan as the principal means to provide long-term incentives to six executive officers, other officers, and key employees. The Plan permits the Committee to grant stock options, stock appreciation rights (SARs), restricted stock, and performance units to executive officers, other officers, and key employees. The Company uses both stock options and restricted stock as long-term incentives. All equity grants are approved by the members of the Committee. Options are generally granted at fair market value on the date of grant.

### **Chief Executive Officer Compensation**

There was no change in Mr. Harker's cash compensation during fiscal year 2004. Mr. Harker was awarded 70,000 stock options with an exercise price of \$6.25 per share, which was the Company's closing stock price on the date of grant. Mr. Harker also received 72,500 restricted shares.

### **Deductibility of Executive Compensation under the Internal Revenue Code**

Section 162(m) of the Internal Revenue Code, as amended (the Code), restricts the deductibility, for federal income

tax purposes, of annual compensation paid to the Chief Executive Officer and each of the four other most highly compensated officers to the extent that such compensation exceeds \$1 million or does not qualify as performance-based as defined under the code. In this regard, the Committee's objective is to obtain the fullest compensation deduction possible while preserving needed flexibility in recognizing and rewarding desired performance. All compensation provided to executive officers in fiscal year 2004 is believed to be fully deductible.

Committee on Executive Compensation:

Norman A. Scher, Chairman

R. Stuart Dickson

Joseph L. Lanier, Jr.

**COMPENSATION OF EXECUTIVE OFFICERS**

*Summary Compensation Table*

The following table presents information relating to total compensation for the three fiscal years ended March 31, 2004 and June 30, 2003 and 2002, of the Chief Executive Officer and the four other most highly compensated executive officers of the Company during fiscal year 2004.

**Summary Compensation Table**

**Long-Term  
Compensation**

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**Annual Compensation**

**Awards**

---

---

**Name and Principal  
Position**

**Fiscal  
Year <sup>(1)</sup>**

**Salary  
\$**



**Bonus**  
\$

**Other Annual  
Compensation**  
\$

**Restricted  
Stock <sup>(2)</sup>**  
\$

**Options/  
SARs**  
#

**All Other  
Compensation <sup>(3)</sup>**  
\$

---

_____
_____
_____
_____
_____
_____
_____

---

Brian J. Harker

2004

375,000

0

0

		499,375
		70,000
		130,795
Chairman and		
	2003	
		472,917
		208,178
		0
		218,750
		70,000
		132,541
Chief Executive Officer		
	2002	
		443,750
		416,681
		0
		223,200
		70,000
		133,175
and Director		

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Steven B. Daniels

2004

262,500

0

0

156,375

20,000

76,036

President and

2003

299,583

86,810

0

46,875

50,000

78,206

Chief Operating Officer

2002

258,750

170,076

0

51

		37,200
		45,000
		76,835
James A. Cooley		
	2004	
		180,000
		0
		0
		121,625
		17,500
		80,194
Senior Vice President -		
	2003	
		227,500
		53,918
		0
		31,250
		40,000
		81,511
Chief Financial Officer		

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2002

215,000

141,320

0

37,200

40,000

81,011

H. Peyton Green

2004

175,500

0

0

86,875

12,500

106,151

Executive Vice President -

2003

222,750

52,792

0

53

		31,250
		30,000
		107,405
Sales Director		
	2002	
		214,500
		140,991
		0
		37,200
		25,000
		106,905
Thomas C. Parrish		
	2004	
		150,000
		0
		0
		86,875
		12,500
		50,082
Senior Vice President -		

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2003

177,500

40,754

0

15,625

10,000

51,434

Chief Legal Officer &

2002

148,750

83,806

0

0

6,000

47,456

Secretary

---

(1)

Fiscal year 2004: July 1, 2003 to March 31, 2004 (9 months).

Fiscal year 2003: July 1, 2002 to June 30, 2003.

Fiscal year 2002: July 1, 2001 to June 30, 2002.

(2)

The value shown is the number of restricted shares granted during the specified fiscal year times the market price of DIMON stock on the date of grant. As of March 31, 2004, the total number and value (based on the closing stock price on such date) of restricted shares held by these executives were: Mr. Harker, 137,500 shares (\$976,250); Mr. Daniels, 35,000 shares (\$248,500); Mr. Cooley, 27,500 shares (\$195,250); Mr. Green, 22,500 shares (\$159,750); and Mr. Parrish, 15,000 shares (\$106,500). The values given do not reflect the fact that the shares are restricted for three years from the date of the award, provided the recipient remains in the employ of the Company. Each of the recipients retains the right to vote the shares and receive any dividends on the shares until the shares are forfeited. The restricted shares cannot be transferred or assigned before they vest.



- (3) Includes contributions to the Company's 401(k) Plan, accruals in the Dibrell Deferred Compensation Plan, premiums to fund the Pension Equalization Plan ( PEP ) and Supplemental Executive Retirement Plan ( SERP ), and premiums for Split Dollar Life Insurance and the SERP Disability Insurance for fiscal years 2004, 2003 and 2002 as follows:

<b>Name</b>	<b>Fiscal Year</b> (1)	<b>Corporate Match 401(k) Plan</b> \$	<b>Deferred Compensation Plan</b> \$	<b>PEP/SERP Premiums</b> \$	<b>Split Dollar Life Premium</b> \$	<b>SERP Disability Premium</b> \$	<b>Total</b> \$
Brian J. Harker	2004	2,500	0	71,010	49,577	7,708	130,795
	2003	4,000	0	71,010	49,823	7,708	132,541
	2002	4,000	0	71,473	49,994	7,708	133,175
Steven B. Daniels	2004	2,484	0	58,354	12,358	2,840	76,036
	2003	4,617	0	58,354	12,395	2,840	78,206
	2002	3,650	0	57,915	12,430	2,840	76,835
James A. Cooley	2004	2,900	0	50,849	23,606	2,839	80,194
	2003	4,100	0	50,849	23,723	2,839	81,511
	2002	3,600	0	50,768	23,804	2,839	81,011
H. Peyton Green	2004	2,932	23,664	50,118	26,139	3,298	106,151
	2003	4,090	23,664	50,118	26,235	3,298	107,405
	2002	3,460	23,664	50,132	26,351	3,298	106,905
Thomas C. Parrish	2004	3,000	0	27,326	18,131	1,625	50,082
	2003	4,300	0	27,326	18,183	1,625	51,434
	2002	2,975	0	24,617	18,239	1,625	47,456

(1) Fiscal year 2004: July 1, 2003 to March 31, 2004 (9 months).

Fiscal year 2003: July 1, 2002 to June 30, 2003.

Fiscal year 2002: July 1, 2001 to June 30, 2002.

*Stock Option Grants and Exercises in Last Fiscal Year*

The following table sets forth information on stock options granted to the named executives during fiscal year 2004 under the Company's Prior Plan, all of which were granted on August 26, 2003.

## Stock Option Grants in Last Fiscal Year

## Individual Grants

	Options/SARs Granted <sup>(1)</sup>	% of Total Options Granted to All Employees	Exercise or Base Price	Expiration Date	Grant Date Present Value <sup>(2)</sup>
Brian J. Harker	70,000	11.7	\$6.95	8/26/13	\$183,400
Steven B. Daniels	20,000	3.4	\$6.95	8/26/13	\$ 52,400
James A. Cooley	17,500	2.9	\$6.95	8/26/13	\$ 45,850
H. Peyton Green	12,500	2.1	\$6.95	8/26/13	\$ 32,750
Thomas C. Parrish	12,500	2.1	\$6.95	8/26/13	\$ 32,750

<sup>(1)</sup> Option grants consisted of incentive and nonqualified stock options. These grants become exercisable on August 26, 2006.

<sup>(2)</sup> The exercise price was set at the closing price of DIMON common stock on the date of the grant. Utilizing the Black-Scholes valuation method, a value of \$2.62 per share was determined. The Black-Scholes Model is a complicated mathematical formula widely used to value exchange traded options. However, stock options granted under the plan differ from exchange traded options in three key respects: the options are long-term, nontransferable and subject to vesting restrictions, while exchange traded options are short-term and can be exercised or sold immediately in a liquid market. In applying the Black-Scholes pricing model, the Company has assumed an option term of ten years, an annual dividend yield for the Company's common stock of 4.32%, a riskless rate of return of 4.21%, and a stock price volatility of 52.58%. No adjustment has been made to reflect the non-transferability of incentive stock options or the limited transferability of non-qualified stock options granted under the plan. Consequently, because the Black-Scholes Model is adapted to value

the options set forth in the table and is assumption-based, it may not accurately determine the grant date present value. The actual value, if any, an optionee will realize will depend on the excess of the market value of the common stock over the exercise price on the date the option is exercised.

The following table sets forth information with respect to the named executive officers concerning the exercise of options during fiscal year 2004 and unexercised options and SARs held by them on March 31, 2004.

**Option/SAR Exercises in Last Fiscal Year <sup>(1)</sup>**  
**Fiscal Year-End Option/SAR Value**

	<b>Shares Acquired on Exercise #</b>	<b>Value Realized \$</b>	<b>Number of Unexercised Options &amp; SARs at Fiscal Year End Exercisable/Unexercisable <sup>(2)</sup> #</b>	<b>Value of Unexercised In-the-Money Options &amp; SARs at Fiscal Year End Exercisable/Unexercisable <sup>(2) (3)</sup> \$</b>
Brian J. Harker	0	0	218,000/210,000	378,925/68,600
Steven B. Daniels	0	0	113,000/115,000	210,850/44,800
James A. Cooley	0	0	88,498/97,500	202,900/36,050
H. Peyton Green	0	0	98,600/67,500	160,125/26,950
Thomas C. Parrish	0	0	21,700/28,500	34,293/10,150

(1) Fiscal year 2004: July 1, 2003 to March 31, 2004 (9 months).

(2) The options represented as unexercisable could not be exercised by the named executive on March 31, 2004, and future exercisability is dependent upon the named executive remaining in the employ of the Company until the vesting date, which is up to three years from the grant date.

(3) At fiscal year end March 31, 2004, the market value of the Company's common stock was \$7.09.

*Equity Compensation Plan Information*

**EQUITY COMPENSATION PLAN INFORMATION**  
**as of Fiscal Year-End <sup>(1)</sup>**

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) <sup>(2)</sup></b>
<hr/>			

Equity Compensation Plans Approved by Security Holders	4,334,148	9.52	2,384,928
Equity Compensation Plans Not Approved by Security Holders	0	Not Applicable	0
<b>Total</b>	4,334,148	9.52	2,384,928

(1) The Prior Plan provided that a maximum of 4,266,229 shares of DIMON common stock may be issued pursuant to the plan, which number was increased annually by three percent (the Replenishment Percentage) of the amount, if any, by which the total number of shares of DIMON common stock outstanding as of the last day of DIMON's fiscal year exceeded the total number of shares of DIMON common stock outstanding as of the first day of such fiscal year, excluding for such purposes shares of DIMON common stock issued under the Prior Plan. As of November 6, 2003, the shareholders approved the 2003 Incentive Plan, which provides that an additional 2,200,000 shares are available for issuance pursuant to such plan.

(2) The 2003 Incentive Plan allows for certain of these shares to be issued in the form of restricted stock grants.

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#### *Employment and Consulting Agreements & Certain Business Relationships*

Messrs. Harker and H. Peyton Green currently have employment agreements with the Company that were entered into prior to the reorganization of Dibrell Brothers and Monk-Austin in April 1995. The agreements provide for the employment of Messrs. Harker and Green until October 31, 2003. The agreements are renewable for successive one-year terms. The agreements may be terminated early in certain circumstances.

Under the agreements, Messrs. Harker and Green are entitled to annual base salaries of \$250,000 and \$155,000, respectively, subject to increases, and are eligible for cash payments under the Company's Management Incentive Plan. The agreements also provide for (1) an annual supplemental retirement benefit equal to 50 percent of the executive officer's average base salary for a period of up to ten years upon termination of the agreements for reasons other than death, disability or cause; (2) an annual death benefit equal to 25 percent of the executive officer's average base salary payable to a beneficiary designated by the executive for a period of up to five years; and (3) annual disability payments under the Long-Term Disability Plan.

The agreements further provide that from the time of termination of the executive's employment (other than by virtue of death or for cause) until his death, he will be entitled to participate in any group health plan or program provided by the Company at the time of termination, and the Company must use its best efforts to provide the executive with

an individual health insurance policy if he is unable to participate in the existing plan.

The agreements may be terminated by the Company for cause or by the officer for good reason, generally related to a failure by the Board to elect the officer to a responsible executive position, material modifications of the officer's duties, functions and responsibilities, or breach of the agreement by the Company.

In the event of termination of employment by the Company other than for cause, by the executive for good reason or upon the expiration of the agreement, each agreement provides that the executive officer will be entitled to receive a special severance benefit for a period of one year after the time of termination equal to a maximum of his base salary and incentive payments for the employment year just completed. The agreements further provide for the reimbursement by the Company of reasonable business expenses. The Company is obligated to pay additional amounts for any taxes the executive officers would have to pay with respect to any parachute payments under Section 280G of the Internal Revenue Code of 1986, as amended.

Messrs. Hines and Monk also had employment agreements with the Company prior to their retirements, effective July 1, 1996 and December 31, 1999, respectively. Under his employment agreement, Mr. Hines was entitled to receive an annual retirement benefit of \$180,000 through 2008. Effective July 1, 2003, with the approval of the Board's Committee on Executive Compensation, the Company and Mr. Hines agreed to decrease the amount of those payments but continue to pay them for a longer term. As a result, Mr. Hines will now be entitled to receive annual payments of \$120,000 through October 31, 2011. Based on a present value calculation by independent consultants, the present value of the modified payments is substantially equivalent to Mr. Hines' prior benefits. Mr. Monk is entitled to receive an annual retirement benefit of \$190,000 through 2009 under the terms of his employment agreement. Thereafter, Mr. Monk will be entitled to his SERP retirement benefit.

Mr. C. Richard Green, Jr. is a non-executive director of ITC Limited, a company in India in which British American Tobacco has a minority interest and with which DIMON does an immaterial amount of business.

#### *Cash Balance Plan*

The DIMON Incorporated Cash Balance Plan (the "Cash Balance Plan"), which was effective as of July 1, 1996, includes all full-time active U.S. employees of DIMON and its subsidiaries. Benefits under the Cash Balance Plan are determined by age and years of credited service. Benefits are payable as a lump sum or on an annuity basis.

Under the Cash Balance Plan each participant has an account balance that represents his or her benefit under the Cash Balance Plan. The participant's initial account balance equals the present value of his or her benefit earned through June 30, 1996, under the former Retirement Plan. Benefit accruals earned after June 30, 1996, are credited annually to the participant's account and are comprised of the sum of two components: retirement credit and interest credit.

The following table summarizes the annual retirement credit provided to participants in the Cash Balance Plan.

<b>Combined Age and Years of Service</b>	<b>Annual Retirement Credit</b>
<40	3.5% of annual earnings
40-49	4.0% of annual earnings
50-59	5.0% of annual earnings
60-69	6.0% of annual earnings
70-79	7.0% of annual earnings
>80	8.0% of annual earnings

The interest credit is equal to the annual interest rate times the participant's account balance at the end of the previous year. The interest rate, which is equal to the yield on the One Year Treasury Constant Maturity Bond plus 1%, is computed at the beginning of the plan year and is used throughout the plan year. The annual interest rate credit for calendar year 2004 is 2.34%.

Benefits earned under the Cash Balance Plan vest after five years of service. The Cash Balance Plan limits the pay that is used in determining the annual retirement credit. The limit is \$205,000 for calendar year 2004. A limit is also imposed on the amount of benefit payable to the participant from the Cash Balance Plan.

Benefits under the Cash Balance Plan are payable upon normal retirement (age 65), vested termination or death. A participant may elect to commence benefit payments on the first day of the month that is coincident with or next following the earlier of his or her 55<sup>th</sup> birthday or the first anniversary of separation of employment. The benefits are payable in the form of a contingent annuity, level annuity or lump sum, which are all actuarially equivalent.

All of the individuals named in the Summary Compensation Table are participants in the Cash Balance Plan. As of March 31, 2004, combined age and credited service for Messrs. Harker, Daniels, Cooley, Green and Parrish equaled 68, 69, 75, 88 and 80, respectively. The estimated annual benefits from the Cash Balance Plan for Messrs. Harker, Daniels, Cooley, Green and Parrish, assuming a four percent annual salary increase, are \$67,000, \$76,000, \$41,000, \$64,000 and \$25,000, respectively.

#### *Excess Benefit Plan*

The Company maintains an Excess Benefit Plan that provides individuals who participate in the Cash Balance Plan the difference between the benefits they could potentially accrue under the Cash Balance Plan considering total compensation and the benefits actually paid as limited by regulations imposed by the Internal Revenue Code. Employees who meet the eligibility requirements of the Cash Balance Plan and are selected by management may participate in this plan. Such benefits are not funded and are expensed by the Company as paid.

#### *Pension Equalization Plan (PEP)*

The PEP was established to pay selected employees unreduced early retirement benefits coordinated with benefit payments under DIMON's Cash Balance Plan. Under the PEP, some participants receive a benefit that, when added to their defined benefit plans, provides them with unreduced benefits if they retire on or after age 55 (with credit to age

65) with 30 years of benefit service. For other participants, the unreduced benefits are available if they retire on or after age 60 (with credit to age 65) with 25 years of benefit service. The PEP also provides individual account-based benefits to employees determined by the Company in its full discretion in amounts likewise determined. In all cases, a participant's benefits are not fully vested until that participant satisfies a vesting contribution provision in the PEP (satisfaction can include a direct contribution, an indirect contribution, a waiver by the Company, any combination of the foregoing, or other measures satisfactory to the Company). All benefits are funded by Company-owned life insurance policies for each participant. The PEP also allows the Company to provide back-up benefits to ensure (but not duplicate) benefit payments under other nonqualified retirement plans.

The following table sets forth, as of March 31, 2004, the estimated annual benefits payable as a straight life annuity under the PEP upon retirement at age 65 after specified years of credited service, as defined in the PEP. In the event of early retirement prior to age 55 and 30 years of service or age 60 with 25 years of service, the following benefits are subject to reduction.

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**Estimated Annual Benefits Payable at Retirement**

<b>Final Average Earnings</b>	<b>Years of Credited Service</b>			
	<b>10 Yrs.</b>	<b>20 Yrs.</b>	<b>30 Yrs.</b>	<b>40 Yrs.</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
180,000	19,800	39,600	59,400	79,200
220,000	24,200	48,400	72,600	96,800
260,000	28,600	57,200	85,800	114,400
300,000	33,000	66,000	99,000	132,000
350,000	38,500	77,000	115,500	154,000
400,000	44,000	88,000	132,000	176,000

The PEP's normal retirement allowance is stated with reference to the participant's final average earnings. A participant's final average earnings are one-fifth of his or her annual earnings during the highest consecutive five-year period within the immediately preceding ten-year period. The term "annual earnings" includes all cash remuneration paid to a participant other than commissions, specified foreign service earnings, and amounts realized under the 2003 Incentive Plan and Prior Plan. Annual earnings are the calendar year equivalent of salary and bonus shown in the Summary Compensation Table. The participant's normal retirement allowance is 1.10% of his or her final average earnings multiplied by credited service.

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As of March 31, 2004, Messrs. Daniels, Cooley and Green had 22, 22, and 33 years of credited service under the PEP, respectively. Messrs. Harker and Parrish were not participants in the PEP as of March 31, 2004.

*Supplemental Executive Retirement Plan (SERP)*

Effective January 1, 1997, the Committee on Executive Compensation recommended and the Board of Directors approved the establishment of the SERP. All benefits are funded by Company-owned life insurance policies for each participant.

The SERP provides an annual retirement benefit equal to 50 percent of the participant's final average fiscal year cash compensation. The final average fiscal year cash compensation is the average of the three highest years' cash compensation during the last ten preceding fiscal years. The benefit is payable in the form of a life annuity. The SERP also provides that, upon death, a life annuity equal to 50 percent of the participant's benefit will be payable to the surviving spouse. Benefits under the SERP do not vest until the participant reaches age 60 and has 20 years of service. Benefits from the SERP are offset by all other Company funded benefits which include the Cash Balance Plan, the PEP, that portion of the 401(k) Plan that is attributable to contributions made to the Monk-Austin Profit Sharing Plan, any other retirement benefit provided by DIMON or subsidiary sponsored retirement plans, or benefits provided under an employment agreement.

**STOCK OWNERSHIP**

The following table provides information as of May 31, 2004, with respect to the direct and indirect ownership of common stock by (1) each person or group known to the Company to beneficially own more than 5% of the outstanding shares; (2) each director and nominee for director; (3) each executive officer named in the Summary Compensation Table; and (4) all directors, nominees and executive officers of the Company as a group. On May 31, 2004, there were 45,161,954 shares of DIMON common stock outstanding.

<b>Name of Beneficial Owner</b>	<b>Number of Shares with Sole Voting and Investment Power <sup>(1)</sup></b>	<b>Number of Shares with Shared Voting and Investment Power</b>	<b>Total Number of Shares <sup>(1)</sup></b>	<b>Percent of Class (if more than 1%) <sup>(1)</sup></b>
Barclays Global Investors, NA. (2) Barclays Global Fund Advisors (2) 45 Fremont Street San Francisco, CA 94105	0	2,184,025	2,252,706	4.99



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Name of Beneficial Owner	Number of Shares with Sole Voting and Investment Power (1)	Number of Shares with Shared Voting and Investment Power	Total Number of Shares (1)	Percent of Class (if more than 1%) (1)
Dimensional Fund Advisors Inc. (3) 1299 Ocean Avenue, 11 <sup>th</sup> Floor, Santa Monica, CA 90401	3,107,800	0	3,107,800	6.88
FMR Corp. (4) Edward C. Johnson III (4) Abigail P. Johnson (4) Fidelity Management & Research Company (4) Fidelity Low Priced Stock Fund (4) 82 Devonshire Street, Boston, MA 02109	0	2,869,800	2,869,800	6.35
Franklin Resources, Inc. (5) Charles B. Johnson (5) Rupert H. Johnson, Jr. (5) One Franklin Parkway, San Mateo, CA 94403	0	3,147,201	3,147,201	6.97
Franklin Advisory Services, LLC (5) One Parker Plaza, Sixteenth Floor Fort Lee, NJ 07024				
Merrill Lynch & Co., Inc. (6) Merrill Lynch Investment Managers (6) World Financial Center, North Tower 250 Vesey Street New York, NY 10381	0	2,426,300	2,426,300	5.37
Hans B. Amell	10,200	0	10,200	

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James A. Cooley	121,009	66	121,075	
Steven B. Daniels	172,468	468	172,936	
R. Stuart Dickson	26,841	0	26,841	
Henry F. Frigon	29,200	0	29,200	
C. Richard Green, Jr.	4,500	0	4,500	
H. Peyton Green III	294,510	2,385	296,895	
Brian J. Harker	396,111	1,981	398,092	
John M. Hines	81,973	15,700	97,673	
James E. Johnson, Jr.	23,950	0	23,950	
Thomas F. Keller	24,974	0	24,974	
Joseph L. Lanier, Jr.	56,250	0	56,250	
Albert C. Monk III	271,150	543,186	814,336	1.80
Thomas C. Parrish	44,662	0	44,662	
Norman A. Scher	35,963	0	35,963	
William R. Slee	5,867	0	5,867	
Martin R. Wade III	20,200	0	20,200	
Executive Officers, Directors and Nominees For Director as a group (17 persons)	1,619,828	563,786	2,183,614	4.74

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<sup>(1)</sup> Includes shares of common stock that may be acquired upon exercise of options that are currently exercisable or will become exercisable within sixty days of May 31, 2004, as follows: Mr. Amell, 7,250 shares; Mr. Cooley, 88,498 shares; Mr. Daniels, 113,000 shares; Mr. Dickson, 21,250 shares; Mr. Frigon, 21,250 shares; Mr. C.R. Green, 2,250 shares; Mr. H.P. Green, 98,600 shares; Mr. Harker, 218,000 shares; Mr. Hines, 72,650 shares; Mr. Johnson, 21,250 shares; Dr. Keller, 21,250 shares; Mr. Lanier, 46,250 shares; Mr. Monk, 127,750 shares; Mr. Parrish, 21,700 shares; Mr. Scher, 21,250 shares; Mr. Slee, 2,250 shares; Mr. Wade, 12,250 shares; and the officers, directors and nominees as a group, 916,698 shares.

Also includes restricted shares of common stock held as of May 31, 2004, as follows: Mr. Cooley, 27,500 shares; Mr. Daniels, 35,000 shares; Mr. H.P. Green, 22,500 shares; Mr. Harker, 137,500 shares; Mr. Parrish, 15,000 shares; and Messrs. Amell, Dickson, Frigon, C. R. Green, Hines, Monk, Scher, Slee and Wade, 2,250 shares each. The shares awarded to executive officers are restricted for three years from the date of the award, provided the recipient remains in the employ of the Company. The shares awarded to

non-employee directors are restricted for one year from the date of the award, provided the recipient remains on the Board of the Company. Each of the recipients retains the right to vote the shares and receive any dividends on the shares until the shares are forfeited. The restricted shares cannot be transferred or assigned before they vest.

- (2) According to a Schedule 13G filed on February 17, 2004, and reporting information as of December 31, 2003, the shares are held in trust accounts for the economic benefit of the beneficiaries of those accounts. The Schedule 13G reports that Barclays Global Investors, NA. has the sole power to vote and dispose of 1,423,320 shares and beneficially owns 1,492,001 shares; Barclays Global Fund Advisors has the sole power to vote and dispose of 760,705 shares.
- (3) According to an amended Schedule 13G filed on February 6, 2004, and reporting information as of December 31, 2003, Dimensional Fund Advisors Inc. is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940 and serves as investment manager to certain other commingled group trusts and separate accounts (the Funds ). In its role as investment adviser or manager, Dimensional possesses voting and/or investment power over the shares; however, all shares are owned by the Funds and Dimensional disclaims beneficial ownership of such shares.
- (4) According to an amended Schedule 13G filed on February 17, 2004, and reporting information as of December 31, 2003, Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corp. and an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, is the beneficial owner of 2,869,800 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940 (collectively, the FMR Funds ). The ownership of one investment company, Fidelity Low Priced Stock Fund, amounted to 2,869,800 shares.

Edward C. Johnson III, FMR Corp. (through its control of Fidelity), and the FMR Funds each has sole power to dispose of shares owned by the FMR Funds. Neither FMR Corp. nor Edward C. Johnson III, Chairman of FMR Corp., has the sole power to vote or direct the voting of the shares owned directly by the FMR Funds, which power resides with the FMR Funds Boards of Trustees.

Members of the Edward C. Johnson III family are the predominant owners of Class B shares of common stock of FMR Corp., representing approximately 49.0% of the voting power of FMR Corp. Mr. Johnson III owns 12.0% and Abigail Johnson owns 24.5% of the aggregate outstanding voting stock of FMR Corp. Through their ownership of voting common stock and the execution of a shareholders voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR Corp.

(5) According to an amended Schedule 13G, filed February 10, 2004, and reporting information as of December 31, 2003, these shares are beneficially owned by one or more open or closed-end investment companies or other managed accounts which are advised by direct and indirect investment advisory subsidiaries (the Adviser Subsidiaries ) of Franklin Resources, Inc. ( FRI ). The advisory contracts grant the Adviser Subsidiaries all investment and/or voting power over the securities owned by the advisory clients. Therefore, the Adviser Subsidiaries may be deemed to be the beneficial owner of these shares.

Charles B. Johnson and Rupert H. Johnson, Jr. (the Principal Shareholders ) each own in excess of 10.0% of the outstanding common stock of FRI and are the principal shareholders of FRI. Therefore, FRI and the Principal Shareholders may be deemed to be the beneficial owner of securities held by persons and entities advised by FRI subsidiaries.

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FRI, the Principal Shareholders and the Adviser Subsidiaries disclaim any economic interest or beneficial ownership of these shares and are of the view that they are not acting as a group for purposes of Section 13(d) under the 1934 Act. The amended Form 13G reports that Franklin Advisory Services, LLC has the sole power to vote and the sole power to dispose of 3,144,200 shares and that Franklin Private Client Group, Inc. has the sole power to dispose of 3,001 shares.

(6) According to an amended Schedule 13G filed on January 27, 2004, and reporting information as of December 31, 2003, Merrill Lynch & Co., Inc. ( ML&Co. ) is a parent holding company. Merrill Lynch Investment Managers ( MLIM ) is an operating division of ML&Co's indirectly-owned asset management subsidiaries. The following asset management subsidiaries hold certain of the 2,426,300 shares: FAM D/B/A Mercury Advisors, Federated Investment Management Co., Merrill Lynch Investment Managers, L.P., and Merrill Lynch Investment Managers, LLC. The amended Form 13G reports that Merrill Lynch Investment Managers shares the power to vote and dispose of 2,426,300 shares.

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**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total return for DIMON common stock from June 30, 1999 to March 31, 2004, to the total returns for the S&P 500 Index, the S&P SmallCap 600 Index, and an index of peer companies selected by the Company for the same period. The companies in the peer group are Standard Commercial Corporation and Universal Corporation. The graph assumes an investment of \$100 in common stock and in each index as of June 30, 1999, and that all dividends are reinvested.

	<b>CUMULATIVE TOTAL RETURN</b>					
	<b>Fiscal Year Ended</b>					
	<b>June 1999</b>	<b>June 2000</b>	<b>June 2001</b>	<b>June 2002</b>	<b>June 2003</b>	<b>March 2004</b>
<b>DIMON</b>	100.00	43.85	214.63	152.82	164.99	168.93
<b>S &amp; P 500</b>	100.00	107.25	91.34	74.91	75.10	87.94
<b>S &amp; P SMALLCAP 600</b>	100.00	114.38	127.10	127.45	122.88	160.42
<b>PEER GROUP</b>	100.00	72.13	178.75	167.75	184.41	216.17

\*\$100 invested on June 30, 1999 in stock or index, including reinvestment of dividends. Due to a change in fiscal year end, the 2004 fiscal year consists of nine months.

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

## **SECTION 16(a) REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers, and persons who own more than 10 percent of a registered class of the Company's equity securities, file with the Securities and Exchange Commission initial reports of ownership and reports of change in ownership of common stock and other equity securities of the Company. The same persons are also required to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended March 31, 2004, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than 10 percent beneficial owners were met.

## **OTHER MATTERS**

On this date, the Company is not aware of any matters to be presented for action at the meeting other than as stated in this notice. However, if any other matters requiring a vote of shareholders are properly presented at the meeting, it is intended that proxies in the accompanying form will be voted on such other matters in accordance with the judgment of the persons voting such proxies.

## **ANNUAL REPORT**

The annual report, including consolidated financial statements of the Company and its subsidiaries for the fiscal year ended March 31, 2004, is being mailed to shareholders with this proxy statement on or about July 14, 2004.

By Order of the Board of Directors

/s/ T. C. Parrish

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T. C. Parrish

*Secretary*

July 14, 2004

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## **APPENDIX A**

### **AUDIT COMMITTEE Charter and Mandates**

#### **PURPOSE**

The primary function of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of DIMON Incorporated ("DIMON") is to assist the Board in fulfilling its oversight responsibilities with respect to the integrity of the financial statements of the company, the company's compliance with legal and regulatory requirements, the independence and qualifications of the independent auditor, and the performance of the company's internal audit function and independent auditors. Further, the Committee is charged with preparing the report of the Audit Committee to be included in the Company's annual proxy statement.

#### **AUTHORITY**

The Committee is formed by Board Resolution pursuant to Article VI Section 2 of the Bylaws. Changes to the Committee's Charter and Mandates must also be made by Board Resolution. The Committee will act only as a committee, with individual members possessing no power to act on their own.

The Committee shall be given the resources and authority to conduct investigations into any matters within the scope of its responsibilities. The Committee shall have the authority to call before it management and other employees of DIMON involved in financial or internal control matters. Further, the Committee shall have the authority and resources necessary to engage financial and internal control experts, including independent public accountants other than DIMON's independent auditor, counsel, including counsel other than DIMON's regular counsel, and other consultants as it deems reasonably necessary to assist it in carrying out its responsibilities. The Committee shall also be provided with the funding for ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

#### **MEMBERSHIP CRITERIA**

The Committee shall be composed of not less than three members of the Board. All members of the Committee shall meet the requirements of the New York Stock Exchange ("NYSE"), the SEC and any other applicable legal or regulatory requirement concerning (1) independence (including restrictions concerning employment relationships, business relationships, family relationship, and cross compensation committee links), and (2) financial literacy. Further, at least one member of the committee shall have the accounting or related financial management expertise to be considered a financial expert.

Determination that a director meets the financial literacy and/or financial expert requirements for audit committee service will be made by the Board in its business judgment. In making such determinations, the Board will consider the financial expert qualifications set forth in SEC Release 33-8177 and related pronouncements.

#### **APPOINTMENT OF MEMBERS AND CHAIRMAN**

The Board of Directors will appoint both the members and the Chairman of the Committee. The appointments will be made at each Annual Meeting of the Board or when successors are required.

If an Audit Committee member simultaneously serves on the audit committee of more than three public companies, the Board must determine that such simultaneous service would not impair the ability of the director to effectively serve on the Company's Audit Committee and disclose such determination in the annual proxy statement.

#### **REMOVAL OF MEMBERS AND CHAIRMAN**

In accordance with Article VI Section 7 of the Bylaws, any member of the Committee, including the Chairman, may be removed by majority vote of the Directors then in office.

#### **VACANCIES**

In accordance with Article VI Section 8 of the Bylaws, any vacancy may be filled by majority vote of the Directors then in office.

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#### **MEETINGS**

**Frequency** To perform its oversight function, the Committee shall meet at least four times annually or more frequently as circumstances dictate. The Committee shall meet separately periodically in executive session with each of the independent auditor, the internal auditor and management. The Committee shall meet privately as a committee as necessary to discuss any matters that the Committee believes should be discussed without the presence of



management.

**Notice** In accordance with Article V Section 6 of the Bylaws, notice of Committee meetings will be provided at least 24 hours in advance of the meeting. Meetings may be held at any time without notice if the members waive the notice requirement by attendance at the meeting or otherwise.

**Forum** The Committee may meet in person, by telephone, or by other communication s facility.

**Quorum** A quorum shall consist of a majority of the Committee members. Action by a majority of the members shall constitute action by the Committee.

**Chairman** In the absence of the Chairman, the Committee will designate by majority vote of the members present another member to serve as Acting Chairman of the meeting.

### **REPORTING**

Minutes of each meeting shall be prepared and distributed to the Committee. The Committee shall report on each of its proceedings to the Board at the next regular meeting of the Board.

### **MINUTES**

The Secretary of the Company, or his designate, will keep minutes of all Committee meetings.

### **MANDATES**

To fulfill its purpose, the committee shall have the following basic duties and such other activities the Committee deems necessary:

#### **Financial Reporting**

Management and the independent auditor shall review with the Committee the audited financial statements to be included in the Company s Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K). This review will include the company s disclosure under Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Committee shall review and discuss with management and the independent auditor any significant accounting matters that arise on an interim basis as well as the unaudited financial statements to be included in the Company s Quarterly Report on Form 10-Q. This review will include the company s disclosure under "Management s Discussion and Analysis of Financial Condition and Results of Operations."

The committee will review with the independent auditor 1) all critical accounting policies and practices used, including any significant changes in accounting principles, 2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management and the ramification of such treatment, and the treatment preferred by the independent auditor, and 3) other material communications between the independent auditor and management such as the management letter and any accounting adjustments proposed.

The Committee shall review and discuss with management its policies and practices regarding earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

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### **Independent Auditor**

The Committee shall be guided by the premise that the independent auditors are ultimately accountable to the Committee. The Committee is directly responsible for selecting, overseeing and evaluating, compensating and, where appropriate, replacing the independent auditor.

The Committee shall pre-approve all audit engagement fees and terms as well as all statutory engagements performed by any audit firm and all permissible non-audit services to be provided by the independent auditors.

The Committee shall evaluate the independent auditors qualifications, performance and independence. As part of such evaluation, at least annually, the Audit Committee shall:

obtain and review a report from the independent auditor describing the firm's internal quality control procedures; any material issues raised by the firm's most recent quality control review or peer review of the firm or an inquiry or investigation by any governmental or professional authority in the preceding five years with respect to any audit carried out by the firm, and any actions taken by the firm to handle any such issues raised.

obtain and review a report from the independent auditor delineating all relationships between the independent auditor and DIMON.

assess if the performance of permissible non-audit services is compatible with their independence.

review and evaluate the lead partner of the independent auditor and ensure that rotation of the independent auditors' partners satisfies regulatory requirements.

The Committee shall set clear hiring policies for employees or former employees of the independent auditors.

### **Internal Audit**

The Committee shall review annually the scope of activities, staffing, results and effectiveness of the Company's Internal Audit function and advise management of such changes to the Internal Audit function as the Committee deems appropriate.

Further, the Committee shall review periodically the qualifications of the Internal Audit function and concur in the appointment, replacement, reassignment or dismissal of DIMON's Chief Audit Executive. The Committee shall review the Internal Audit function as to its independence and authority of its reporting obligations.

The Committee shall also review the department's annual audit plan and the results of the audits and obtain explanations for any significant deviations from the original plan.

### **Internal Control and Risk Management Matters**

Management, the independent auditor and the Company's internal auditors shall review with the Committee the adequacy and effectiveness of the accounting and financial controls of the Corporation. The Committee shall elicit recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.

Management, the independent auditor and the Company's internal auditors shall discuss with the Committee significant financial risks or exposures. Further, the Committee will discuss policies with management with respect to risk assessment and risk management and shall assess the steps management has taken to minimize such risks to the Company.

The independent auditor and internal auditors shall review with the Committee any significant findings and recommendations together with management's response. The Committee shall satisfy itself that management has taken any necessary corrective actions on a timely basis.

## **Compliance**

Management shall review with the Committee the effectiveness of the Company's system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any instances of noncompliance.

Management, general counsel, and the tax director shall periodically update the Committee regarding compliance with laws and regulations.

The Committee shall be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

The Committee shall review the findings of any examinations by regulatory agencies.

Management shall review with the Committee the code of conduct and the plan to ensure that all employees are aware of it, as well as the program for monitoring compliance.

The Committee shall periodically obtain updates from management and the Company's general counsel regarding compliance with the Company's code of conduct.

The Committee will establish procedures covering the receipt, retention and treatment of complaints received by the company regarding internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing concerns.

The Committee shall review with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements.

The internal auditor shall review with the Committee the Executive Officers' expense accounts and use of corporate assets.

## **Other Responsibilities**

The Committee will report to the full board any issues that arise with respect to the quality and integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the performance of the independent auditors and the performance of the internal auditors.

The Committee shall perform a review and evaluation of the Committee's own performance.

The Committee shall annually review the provisions of this Charter and recommend to the Corporate Governance & Nominating Committee any appropriate changes.

The Charter as revised periodically will be published on the Company's public website.

**CONSISTENCY WITH ARTICLES OF INCORPORATION, BYLAWS**

To the extent that any provision or section of this Charter may be inconsistent with any article, provision or section of the Articles of Incorporation or the Bylaws of the Corporation, the Articles of Incorporation or the Bylaws, as appropriate, shall fully control.

**CERTIFICATION**

This Audit Committee Charter was duly approved, with an effective date of April 1, 2004, by the Board of Directors of DIMON on the 26<sup>th</sup> day of February 2004.

/s/ Thomas C. Parrish

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**Thomas C. Parrish**  
*Secretary*

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**^ FOLD AND DETACH HERE ^**

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**PROXY**

**PROXY**

**DIMON INCORPORATED  
512 BRIDGE STREET  
P. O. BOX 681  
DANVILLE, VIRGINIA 24543**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Mr. R. Stuart Dickson, Mr. Joseph L. Lanier, Jr., and Mr. William R. Slee, or any one of them acting singly, proxies for the undersigned, with full power of substitution, to act and vote with the powers the undersigned would possess if personally present at the 2004 Annual Meeting of Shareholders of DIMON Incorporated to be held August 26, 2004, at 10:00 A.M., at the Carrington Conference Center, 503 Bridge Street, Danville, Virginia, and at any and all adjournments thereof.

1. ELECTION OF DIRECTORS (mark only one box)

\_\_\_\_\_ FOR all nominees listed below (except as marked to the contrary below).  
\_\_\_\_\_ WITHHOLD AUTHORITY to vote for all nominees listed below.

NOMINEES: Hans B. Amell, C. Richard Green, Jr., Albert C. Monk III, Norman A. Scher,  
Martin R. Wade III

INSTRUCTION: To withhold authority to vote for any individual nominee, print that nominee's name in the space provided below.

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The Board recommends a vote "FOR" the foregoing proposal.

*Please sign and date on reverse side.*



**^ FOLD AND DETACH HERE ^**

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When properly executed and delivered, this proxy will be voted in the manner directed by the undersigned shareholder. If no direction is made, this proxy will be voted "FOR" the election of the directors listed in Item One. Proxies for the undersigned will have discretionary authority to vote in accordance with the recommendations of the Board of Directors on all other matters that properly come before the meeting.

Dated \_\_\_\_\_, 2004

**SHAREHOLDER'S SIGNATURE**

Please sign exactly as the name appears on this card. Only one of several joint owners need sign. Fiduciaries and Corporate Officers should give full title.

*Please mark, sign, date and return the proxy card promptly using the enclosed envelope.*