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PACEL CORP
Form 10QSB
November 13, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2006

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 0-29459

PACEL CORP.

(Exact name of registrant as specified in its charter)

NEVADA

54-1712558

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

7621 Little Ave Suite 101
Charlotte, NORTH CAROLINA

28226

(Address of principal executive offices)

(ZIP Code)

Registrant's telephone number, including area code: (704) 643-0676

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 day: Yes No

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

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE) Yes No

State the number of Shares outstanding of each of the issuer's classes of common equity, as of the latest date:

As November 10, 2006 there were 4,487,481,946 shares of the Registrant's common stock outstanding.

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PACEL CORP. AND SUBSIDIARIES

Part I. FINANCIAL INFORMATION (unaudited)

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PACEL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| | ----- (Unaudited) | ----- (Audited) |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 766,694 | \$ 251,591 |
| Accounts receivable | 247,085 | 15,388 |
| Accounts receivable-Unbilled | 212,002 | 169,741 |
| Prepaid expenses | 116,592 | 69,377 |
| Workers compensation insurance deposits | 42,195 | 26,241 |
| Restricted cash | 105,033 | 179,851 |
| | ----- | ----- |
| Total current assets | 1,489,601 | 712,199 |
| | ----- | ----- |
| Property and equipment, net of accumulated depreciation of \$178,585 and \$133,031, respectively | 98,894 | 125,381 |
| | ----- | ----- |
| Other assets: | | |
| Other receivables | 25,350 | 65,121 |
| Retirement Plan - Director | 182,036 | 162,231 |
| Goodwill | 669,404 | 368,201 |
| Security deposits | 11,152 | 11,151 |
| | ----- | ----- |
| Total other assets | 887,942 | 606,704 |
| | ----- | ----- |
| Total assets | \$ 2,476,437 | \$ 1,444,284 |
| | ===== | ===== |

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES Consolidated Balance Sheets

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| | ----- (Unaudited) | ----- (Audited) |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 102,152 | \$ 336,49 |
| Payroll and payroll related liabilities | 2,184,506 | 1,955,23 |
| Accrued worksite employee payroll expense | 196,639 | 163,62 |
| Accrued expenses | 2,072,186 | 1,857,45 |
| Assumed Liabilities | 493,133 | 493,13 |
| Client Deposits | 47,366 | -0 |
| Short term payables | 509,984 | 1,081,35 |
| Current Maturities of long term note | 27,128 | 27,12 |
| | ----- | ----- |
| Total current liabilities | 5,633,094 | 5,914,42 |
| | ----- | ----- |
| Long-term liabilities: | | |
| Notes Payable - Non Current portion | 200,029 | 218,92 |
| Deferred Compensation - Director Payable | 463,567 | 335,23 |
| | ----- | ----- |
| Total long term liabilities | 663,596 | 554,15 |
| | ----- | ----- |
| Total liabilities | 6,296,690 | 6,468,58 |
| | ----- | ----- |
| Stockholders' equity (deficit): | | |
| Preferred stock, .001 par value, no liquidation value, 5,000,000 shares authorized, 1,000,000 shares of 1997 Class A convertible preferred stock issued | 1,000 | 1,00 |
| Preferred stock, .001 par value, no liquidation value, 500,000 shares authorized, 500,000 shares of 2006 Class C convertible preferred stock issued | 500 | -0 |
| Common stock, .001 par value, 10,000,000,000 shares authorized, 4,075,481,946 and 1 shares issued respectively | 4,075,482 | -0 |
| Additional paid-in capital | 25,179,884 | 25,765,42 |
| Cumulative currency translation adjustment | (18,720) | (18,72 |
| Accumulated deficit | (33,058,399) | (30,772,00 |
| | ----- | ----- |
| Total stockholders' (deficit) | (3,820,253) | (5,024,30 |
| | ----- | ----- |
| Total liabilities and stockholders' deficit | \$ 2,476,437 | \$ 1,444,28 |
| | ===== | ===== |

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES

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Consolidated Statements of Operations (Unaudited)

| | Nine months ended September 30, | |
|---|------------------------------------|----------------|
| | 2006 | 2005 |
| Revenue | \$ 2,723,851 | \$ 1,880,593 |
| Cost of services | 1,882,916 | 1,389,574 |
| | 840,935 | 491,019 |
| Gross profit | | |
| Operating costs and expenses: | | |
| General and administrative | 1,843,679 | 2,038,878 |
| Sales and marketing | 62,587 | 422,870 |
| Depreciation and amortization | 45,554 | 45,396 |
| Loss on impairment of goodwill | 197,720 | 131,950 |
| | 2,149,540 | 2,639,094 |
| Total operating expenses | | |
| | (1,308,605) | (2,148,075) |
| Operating Loss | | |
| Other expenses: | | |
| Interest expense | (237,008) | (305,473) |
| Embedded Interest | (742,691) | (447,855) |
| | (979,699) | (753,328) |
| Total other expense | | |
| | (2,288,304) | (2,901,403) |
| Net loss before discontinued operations | | |
| Discontinued operations: | | |
| Loss from discontinued operations of Asmara of Florida and Partners PEO of the Carolinas | -0- | (31,708) |
| Loss from sale of contracts to Allegro, Inc. | -0- | (600,652) |
| | -0- | (632,360) |
| Total loss on discontinued operations | | |
| | \$ (2,288,304) | \$ (3,533,763) |
| Net loss | | |
| Loss from discontinued operations per common and common equivalent share: | | |
| Basic | \$ (0.00) | \$ (632,360) |
| Diluted | \$ (0.00) | \$ (632,360) |
| Net loss per common and common equivalent share: | | |
| Basic | \$ (.004) | \$ (3,533,763) |
| Diluted | \$ (.004) | \$ (3,533,763) |
| Weighted average shares outstanding: | | |
| Basic | 604,103,891 | 1 |
| Diluted | 604,103,891 | 1 |

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

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(Unaudited)

| | Nine months ended September 30, | |
|--|------------------------------------|--------------|
| | 2006 | 2005 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (2,288,304) | \$ (3,533,76 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 45,554 | 45,39 |
| Embedded interest | 742,691 | 447,85 |
| Other non-cash items | -0- | 27,70 |
| Loss on discontinued operations | -0- | 632,36 |
| Loss on sale of contracts | -0- | -0 |
| Loss on impairment of goodwill | 197,720 | 210,59 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable | (106,197) | 222,09 |
| Accounts receivable-Unbilled | (42,253) | (85,31 |
| Other receivables | 39,777 | -0 |
| Client deposits | -0- | 779,47 |
| Insurance deposits | 19,245 | 14,16 |
| Prepaid expenses | (47,220) | 31,06 |
| Security deposits | -0- | (1,926 |
| Retirement Plan Director | (19,806) | |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (234,055) | 139,76 |
| Accrued expenses | 214,731 | 498,86 |
| Deferred Compensation-Director | 128,334 | 200,81 |
| Payroll and payroll related liabilities | 15,094 | (573,54 |
| Accrued work site employee payroll cost | 33,013 | (108,16 |
| Client Deposits and advance payments | 47,366 | (779,47 |
| | ----- | ----- |
| Net cash (used in) operating activities | (1,254,310) | (1,832,02 |
| Cash flows from investing activities: | | |
| Net purchases of property and equipment | (8,271) | (15,12 |
| Sale of Contracts | -0- | 110,35 |
| Cash CD-Restricted | 74,822 | 734,49 |
| Cash Acquired in United Personnel/World Wide Acquisition | 79,406 | -0 |
| | ----- | ----- |
| Net cash (used in) investing activities | 145,957 | 829,72 |
| Cash flows from financing activities: | | |
| Repayments of notes payable | (45,948) | (19,24 |
| Issuance of notes payable | -0- | -0 |
| Issuance of convertible notes payable | 1,679,528 | 1,245,00 |
| Repayments of lines of credit | (10,125) | (5,72 |
| Repayments of capital lease | -0- | -0 |
| | ----- | ----- |
| Net cash provided by financing activities | 1,623,455 | 1,220,03 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 515,102 | 217,74 |
| Cash and cash equivalents, beginning of period | 251,595 | 117,05 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 766,697 | \$ 334,79 |
| | ===== | ===== |

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See accompanying notes to the consolidated financial statements.
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PACEL CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

| | Nine months ended September 30, | |
|---|------------------------------------|----------|
| | 2005 | 2004 |
| | ----- | ----- |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the years for: | | |
| Interest | \$ 24,007 | \$ 15,09 |
| Income taxes | \$ -0- | \$ -0- |

See accompanying notes to the consolidated financial statements.
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PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2006

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NOTE 1 BASIS OF PRESENTATION.

The unaudited financial statements of Pacel Corporation and Subsidiaries (collectively, the Company) included in the Form 10-QSB have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation SB of the Securities and Exchange Act of 1934. The financial information furnished herein reflects all adjustments, which in the opinion of management, are necessary for a fair presentation of the Company's financial position, the results of operations and cash flows for the periods presented.

Certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been omitted, pursuant to such rules and regulations.

These interim statements should be read in conjunction with the audited consolidated financial statements and related notes thereto as presented in the Company's certified financial statements for the year ended December 31, 2005. The Company presumes that users of the interim financial information herein have read or have access to such audited financial statements and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. The results of operations for any interim period are not necessarily indicative of the results expected or reported for the full year.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has generated significant losses and is unable to predict profitability for the future. These factors indicate that the Company's continuation, as a going concern is dependent upon its ability to obtain adequate financing. The Company plans to address the going concern by obtaining equity financing and to grow the Company with profitable sales both organically and through acquisitions. Management believes successfully executing these tasks will lead to the removal of the going concern comment from our audited financials.

NOTE 2 PRINCIPLES OF CONSOLIDATION.

The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE 3 USE OF ESTIMATES

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to impairment of goodwill and equity investments, revenue recognition, recoverability of inventory and receivables, the useful

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lives of long lived assets such as property and equipment, the future realization of deferred income tax benefits and the recording of various accruals. The ultimate outcome and actual results could differ from the estimates and assumptions used.

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PACEL CORP. AND SUBSIDIARIES Notes to the Consolidated Financial Statements September 30, 2006

NOTE 4 REVENUE RECOGNITION.

The Company's revenue is attributable to fees for providing employment services and commissions for the sale of insurance products. Our revenues are primarily dependent on the number of clients enrolled, the resulting number of worksite employees paid each period.

The Company's revenue is recognized in three distinct categories, two categories are for service fees and the third is for the sale of insurance products:

For service fee income, the Company typically enters into agreements for either;

- o a fixed fee per transaction (e.g., number of payees per payroll);
- o a fixed percentage of gross payroll;

We account for our revenues that is a fixed percentage of gross payroll in accordance with Emerging Issues Task Force ("EITF") 99-19, Reporting Revenues Gross as a Principal Versus Net as an Agent. Our revenues are derived from our billings, which are based on:

- o the payroll cost of our worksite employees; and
- o a markup computed as a percentage of the payroll cost.

In determining the fixed percentage markup component of the billings, we consider our estimates of the costs directly associated with our worksite employees, including payroll taxes and workers' compensation costs, plus an acceptable gross profit margin. We invoice the billings concurrently with each periodic payroll of our worksite employees. Revenues, which exclude the payroll cost component of billings, are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. We include revenues that have been recognized but not invoiced in unbilled accounts receivable on our Consolidated Balance Sheets.

When our markup is computed as a percentage of payroll cost, revenues are also affected by the payroll cost of worksite employees, which can fluctuate based on the composition of the worksite employee base, inflationary effects on wage levels and differences in the local economies of our markets.

The primary direct costs associated with our revenue generating activities are:

- o employment-related taxes ("payroll taxes");
- o workers' compensation claim costs.

Payroll taxes consist of the employer's portion of Social Security and Medicare taxes under FICA, federal unemployment taxes and state unemployment taxes. Payroll taxes are generally paid as a percentage of

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payroll cost. The federal tax rates are defined by federal regulations. State unemployment tax rates are subject to claim histories and vary from state to state.

Due to the significance of the amounts included in billings to the Company's clients and its corresponding revenue recognition methods, the Company has provided the following reconciliation of billings to revenue for the quarters ended September 30, 2006 and September 30, 2005.

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 |
|---|---|---|
| | ----- | ----- |
| Reconciliation of billings to revenue recognized: | | |
| Billings to clients | \$ 8,049,497 | \$ 2,000,000 |
| Less - Gross wages billed to clients | (7,005,345) | (2,000,000) |
| | ----- | ----- |

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PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2006

| | | |
|---|--------------|-------|
| Revenue from fees for service on a fixed percentage | \$ 324,135 | \$ |
| Revenue from fees for service on a fixed cost | 714,359 | |
| Revenue from insurance commissions | 5,658 | |
| | ----- | ----- |
| Total revenue as reported | \$ 1,044,152 | \$ |
| | ===== | ===== |
| Employer portion of Social Security And Medicare taxes | \$ 130,071 | \$ |
| State and Federal Unemployment taxes | 77,221 | |
| Workers' Compensation Premiums | 349,758 | |
| Other Misc. Expense | 124,844 | |
| | ----- | ----- |
| Total Cost of Sales | 681,894 | |
| | ----- | ----- |
| Gross Profit | \$ 362,258 | \$ |
| | ===== | ===== |

Due to the significance of the amounts included in billings to the Company's clients and its corresponding revenue recognition methods, the Company has provided the following reconciliation of billings to revenue for the nine months ended September 30, 2006 and September 30, 2005.

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| | Nine Months Ended September 30, 2006 | Nine Mont Septemb 200 |
|---|--|-----------------------------|
| | ----- | ----- |
| Reconciliation of billings to revenue recognized: | | |
| Billings to clients | \$ 18,543,704 | \$ 13, |
| Less - Gross wages billed to clients | (15,819,853) | (11, |
| | ----- | ----- |
| Revenue from fees for service on a fixed percentage | \$ 1,197,428 | \$ 1, |
| Revenue from fees for service on a fixed cost | 1,520,765 | |
| Revenue from insurance commissions | 5,658 | |
| | ----- | ----- |
| Total revenue as reported | \$ 2,723,851 | \$ 1, |
| | ===== | ===== |
| Employer portion of Social Security And Medicare taxes | \$ 415,611 | \$ |
| State and Federal Unemployment taxes | 239,138 | |
| Workers' Compensation Premiums | 989,407 | |
| Other Misc. Expense | 238,760 | |
| | ----- | ----- |
| Total Cost of Sales | 1,882,916 | 1, |
| | ----- | ----- |
| Gross Profit | \$ 840,935 | \$ |
| | ===== | ===== |

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PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2006

NOTE 5 COMMON STOCK.

In January and June 2006, the Company affected one-for-one thousand reverse stock splits restating the number of common shares of the Company at December 31, 2005 to 1. All references to average number of shares, shares outstanding and earnings per share have been restated retroactively to reflect the split.

NOTE 6 ACQUISITIONS.

In March 2006, the Company completed the purchase of all the outstanding shares of stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchases was April 1, 2006 and January 1, 2006 respectively. The Company issued 500,000 shares of Series "C" Convertible Preferred shares to the sole stockholder for United Personnel Services, Inc. and World Wide Personnel Services of Maine, Inc. The Preferred shares can be converted into \$500,000 of Common Stock, of which \$100,000 has been attributed to the purchase of United Personnel Services, Inc and the remaining \$400,000 is attributed to World Wide Personnel of Maine, Inc. Total Assets acquired in the Acquisition of United Personnel Services and

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World Wide Personnel of Maine were \$223,106 which included \$63,174 in cash and \$10,000 in fixed assets which consisted of Office/Computer Equipment. Total Liabilities assumed in the Acquisition were \$205,498. Goodwill was valued at \$482,392 of which \$197,720 was impaired. The fair value was determined using discounted cash flows. In September 2006, the Company transferred these assets to the Resourcing Solutions Group, Inc., its majority owned subsidiary. The Company received a \$500,000 promissory note From The Resourcing Solutions Group, Inc. in exchange for these assets.

Both companies are licensed Professional Employer Organizations operating in the state of Maine. United Personnel was formed in 1999 and World Wide Personnel of Maine, Inc was formed in 1997. Both companies offer full service human resource management services for small and mid-sized businesses. Combined these acquisitions increase the Company's work site employees by approximately 600. The purchase of these companies extends the operating footprint of the Company from the mid-Atlantic region to the northeast region of the country.

In September 2006, the Company acquired all the outstanding stock of Consolidated Services, Inc. an insurance agency licensed in multiple states and appointed to multiple insurance carriers. Acquiring Consolidated allows the Company to receive insurance commissions paid by the carriers to the producer. The effective date of the purchase was September 1, 2006. The Company issued a Promissory Note for \$34,090. Total assets acquired in the acquisition were \$27,802 which included \$16,232 in cash, \$10,773 in receivables and \$797 in furniture, fixtures and equipment. Total liabilities assumed were \$10,242; Goodwill was valued at \$16,532.

The following unaudited condensed pro forma financial information gives effect to the Company's operations as if the United/World Wide and Consolidated acquisition had occurred on January 1, 2005. Unaudited pro forma financial information is not necessarily indicative of the results that the Company would have achieved had the acquisition occurred on either of those dates.

Pacel Corp and Subsidiaries with World Wide/United Personnel and Consolidates Services, Inc.

| | Nine Months Ended September 30, 2006 | Nine Months Ende September 30, 2005 |
|--------------------------|--|---|
| | ----- | ----- |
| Revenue | \$ 3,878,297 | \$ 4,297,959 |
| Cost of Services | (2,928,234) | (3,432,216) |
| | ----- | ----- |
| Gross Profit | 950,063 | 865,743 |
| | ----- | ----- |
| Total operating expenses | 2,243,900 | 2,963,415 |

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PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2006

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| | | |
|---|----------------|----------------|
| Net Operating Loss | (1,293,837) | (2,097,672) |
| Other expenses | (979,699) | (753,328) |
| Net loss before discontinued operations | (2,273,536) | (2,851,000) |
| Discontinued operations | -0- | (632,360) |
| Net Loss | \$ (2,273,536) | \$ (3,483,360) |
| Net loss from discontinued operations per common and common equivalent share: | | |
| Basic | \$ -0- | \$ (632,360) |
| Diluted | \$ -0- | \$ (632,360) |
| Net loss per common and common equivalent share: | | |
| Basic | \$ (.004) | \$ (3,483,360) |
| Diluted | \$ (.004) | \$ (3,483,360) |
| Weighted average shares outstanding: | | |
| Basic | 604,103,891 | 1 |
| Diluted | 604,103,891 | 1 |

NOTE 7. CONTINGENT LIABILITIES.

The Securities and Exchange Commission ("SEC") filed an action in Federal District Court asserting various violations of securities laws against the Company and its principal officer. The complaint alleges that Mr. Frank Custable "orchestrated" a "scheme" to illegally obtain stock from various companies, including the Company, through "scam Commission Form S-8 registration statements, forged stock authorization forms and at least one bogus attorney opinion letter arranged by Custable." The complaint alleges that, in connection with this alleged "scheme," the Company and its former CEO, David Calkins violated Section 17(a) of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act. The SEC asks that the Company and Calkins be permanently enjoined from future violations, ordered to pay disgorgement and civil penalties and Calkins be barred from continued service as an officer and director. As part of an ex parte proceeding, the District Court ordered the Company and Calkins to provide an accounting of their assets and the transactions that are the subject of the complaint. On April 7, 2005, grand jury proceedings in the Northern District of Illinois indicted several individuals but not the Company. Subsequently, the Court stayed the Commission's civil action pending the resolution of the criminal proceedings arising from the actions of the grand jury.

On or about September 9, 2005, an action was filed against the Company in the Supreme Court of New York, County of New York.. The action alleges that the Company is in default in the payment of amounts owing on certain convertible notes issued by the Company in March 2001 and subsequently converted to term notes. The action seeks compensatory damages in the amount of \$312,000, plus interest and attorneys fees in an amount yet unspecified. The Company is carrying these notes as part

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of short term notes payable of \$375,000. The Company has recognized the obligation but, due to limited cash flows is unable to pay the outstanding balance.

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PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2006

NOTE 8. SHORT-TERM PAYABLES CONSISTS OF:

| | September 30, 2006 | December 31, 2005 |
|---------------------------|-----------------------|----------------------|
| | ----- | ----- |
| Convertible Notes Payable | \$ 95,238 | \$ 600,507 |
| Bank Line of Credit | 5,727 | 15,852 |
| Other Notes Payable | 409,019 | 465,000 |
| | ----- | ----- |
| Total Short-Term Payables | \$ 509,984 | \$ 1,081,359 |
| | ===== | ===== |

NOTE 9. RELATED PARTY TRANSACTIONS.

A. Mr. Calkins employment agreement

In May 2005, David Calkins engaged the law firm of Hinshaw and Culbert to defend himself in an action which occurred while Mr. Calkins was an Officer and Director of the Company. The employment contract between Mr. Calkins and the Company requires the Company to pay such legal bills. The Company incurred \$87,729 in fees to Hinshaw and Culbert for the nine months ending September 30, 2006.

NOTE 10. RECENT ACCOUNTING PRONOUNCEMENTS.

The Company believes that any new accounting pronouncements since December 31, 2005, will not have an affect on the Company's financial statements.

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PACEL CORP. AND SUBSIDIARIES

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

Management's discussion and analysis of results of operations and financial condition include a discussion of liquidity and capital resources. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto. Historical results are not necessarily indicative of trends in operating results for any future period.

In 2006, the Company continued its strategy for penetrating the Human Resources Outsourcing ("HRO") industry based on its evaluation of its business model and existing business initiatives completed in 2002. The Company's intention to enter this business sector was announced in September 2002 and was based on an evaluation of potential business markets that provide the potential for success. The Company provides human capital solutions through the provision of PEO services and Administrative Service Organization ("ASO") services to such clients. In March 2006, the Company completed the acquisition of two additional PEO organizations and continues to evaluate other potential acquisition candidates while also reviewing and implementing opportunities to support organic growth in order to secure a position as an industry leader. The Company sees this initiative in the Human Resources Outsourcing ("HRO") industry as an opportunity to tap into the small business market in the United States and intends to compliment the provision of PEO and ASO services with information technology services, business consulting services and financial services. In September 2006, the Company completed the acquisition of Consolidated Services, Inc., a full service insurance agency. Management believe the addition of an insurance agency adds not only an additional profit center but also compliments the Company's HR services thus allowing additional marketing opportunity for both lines of service.

As part of its goal to bring the company to profitability and less reliant on equity financing for ongoing operations, the company has developed an aggressive marketing strategy as well as an investment to significantly upgrade its HRIS (Human Resource Information System) capabilities to service its current and prospective clients. This plan includes hiring and training the sales team as well as marketing the company's services through networks of national associations and chains. During the nine months ending September 2006, the Company increased its sales force. New sales began to matriculate in the second quarter and continue to matriculate in the third quarter at which time sales commission expenses increased and will continue to increase.

Through its PEO/ASO business unit, the Company markets to current and prospective clients, typically small to medium-sized businesses with between five and 1,500 employees, a broad range of products and services that provide an outsourced solution for the clients' human resources ("HR") needs. The Company's products include payroll services, benefits administration (including health, welfare and retirement plans), governmental compliance, risk management (including safety training), unemployment administration other HR related services and a full line of insurance products. The Company has established the national and regional vendor relationships it believes are necessary to effectively and competitively provide such services to a broad range of clients. The Company is working to establish additional national and vendor relationships to expand services and create additional revenue

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sources.

In a further effort to bring the Company to profitability internal operating costs are continually reviewed and evaluated. Management continues to reduce operating costs and achieve additional efficiencies as new acquisitions are integrated into existing operations.

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PACEL CORP. AND SUBSIDIARIES

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE NINE MONTHS ENDED
SEPTEMBER 30, 2005

Revenue for the nine months ended September 30, 2006 was \$2,723,851 compared to revenue of \$1,880,593 for the nine months ended September 30, 2005. The Cost of Service and Gross Profit significantly increased over the same time period in 2005. These results are directly attributable to the six months of ownership of World Wide Personnel Services of Maine, Inc. and the nine months of ownership of United Personnel Services, Inc which combined contributed \$1,520,765 in total revenue for the nine months ending September 30, 2006.

Due to the significance of the amounts included in billings to the Company's clients and its corresponding revenue recognition methods, the Company has provided the following reconciliation of billings to revenue for the nine months ended September 30, 2006 and September 30, 2005.

| | Nine Months Ended September 30, 2006 | Nine Months September 2005 |
|---|--|----------------------------------|
| | ----- | ----- |
| Reconciliation of billings to revenue recognized: | | |
| Billings to clients | \$ 18,543,704 | \$ 13,750 |
| Less - Gross wages billed to clients | (15,819,853) | (11,869) |
| | ----- | ----- |
| Revenue from fees for service on a fixed percentage | \$ 1,197,428 | \$ 1,880 |
| Revenue from fees for service on a fixed cost | 1,520,765 | |
| Revenue from insurance commissions | 5,658 | |
| | ----- | ----- |
| Total revenue as reported | \$ 2,723,851 | \$ 1,880 |
| | ===== | ===== |
| Employer portion of Social Security And Medicare taxes | \$ 415,611 | \$ 796 |
| State and Federal Unemployment taxes | 239,138 | 239 |
| Workers' Compensation Premiums | 989,407 | 316 |
| Other Misc. Expense | 238,760 | 37 |
| | ----- | ----- |
| Total Cost of Sales | 1,882,916 | 1,389 |
| | ----- | ----- |
| Gross Profit | \$ 840,935 | \$ 491 |
| | ===== | ===== |

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Cost of services for the nine months ended September 30, 2006 was \$1,882,916 compared to cost of services of \$1,389,574 for the nine months ended September 30, 2005 and is related directly to the delivery of services to its PEO/ASO clients. The increase over 2005 is directly related to the acquisition of United Personnel Services and World Wide Personnel Services of Maine. For the nine months in which United Personnel Services was owned by Pacel and the six months that Pacel owned World Wide Personnel Services of Maine combined they incurred \$1,238,577 in cost of services for the nine months ended September 30, 2006.

General & administrative expenses, including salaries and wages, was \$1,843,679 for the nine months ended September 30, 2006, compared to \$2,038,878 in the corresponding period of 2005. The decrease was attributed to the restructuring that occurred on May 15, 2005 which included a reduction in internal staff and the continued use of technology to reduce internal operating expenses. The decrease was mitigated by a combined increase of \$404,566 in expenses with nine months of ownership of United Personnel Services and six months of ownership of World Wide Personnel Services of Maine.

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PACEL CORP. AND SUBSIDIARIES

Sales and marketing expense was \$62,587 for the nine months ended September 30, 2006, compared to \$422,870 in the corresponding period of 2005. The decrease was attributed to the company's continued transformation of its sales and marketing function that began in the second quarter of 2005. Many of the expenses incurred were one-time costs or contracts for specific periods of time. Sales and marketing expenses decreased as these costs have been met and the sales and marketing function shifts to a commission based system.

Depreciation and amortization expense was \$45,554 for the nine months ended September 30, 2006, compared to \$45,396 for the corresponding period of 2005. This increase was from the Human Resource Information System and various other office equipment placed in service in the third and fourth quarter of 2004.

Interest expense is interest paid and accrued on the Convertible Notes, unpaid payroll taxes, notes payable, and bank financing. Interest expense was \$237,008 for the nine months ended September 30, 2006 compared to \$305,473 for the same period of 2005.

Embedded Interest for the nine months ended September 30, 2006 was \$742,691 compared to embedded interest expense of \$447,855 for the nine months ended September 30, 2005. The Company recorded embedded interest in conjunction with the issuance of convertible debentures during the period

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2005

Revenue for the quarter ended September 30, 2006 was 1,044,152 compared to revenue of \$390,082 for the quarter ended September 30, 2005. Gross billings to clients and gross wages billed to clients significantly increased due to the acquisition of World Wide Personnel Services of Maine which contributed total revenue of \$714,359. These results are directly attributable to the acquisition as well as the restructuring

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of clients and the Company which occurred on May 15, 2005.

The company experienced an increase in the number work-site employees under management over the same time period in 2005. This increase is attributable to results from a more aggressive sales and marketing campaign resulting in organic growth and the acquisition of United Personnel Services and World Wide Personnel Services of Maine.

Due to the significance of the amounts included in billings to the Company's clients and its corresponding revenue recognition methods, the Company has provided the following reconciliation of billings to revenue for the quarters ended September 30, 2006 and September 30, 2005.

| | Quarter Ended September 30, 2006 | Quarter Ended September 2005 |
|---|--|------------------------------------|
| | ----- | ----- |
| Reconciliation of billings to revenue recognized: | | |
| Billings to clients | \$ 8,049,497 | \$ 2,775 |
| Less - Gross wages billed to clients | (7,005,345) | (2,385) |
| | ----- | ----- |
| Revenue from fees for service on a fixed percentage | \$ 324,135 | \$ 390 |
| Revenue from fees for service on a fixed cost | 714,359 | |
| Revenue from insurance commissions | 5,658 | |
| | ----- | ----- |
| Total revenue as reported | \$ 1,044,152 | \$ 390 |
| | ===== | ===== |

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PACEL CORP. AND SUBSIDIARIES

| | | |
|---|------------|--------|
| Employer portion of Social Security And Medicare taxes | \$ 130,071 | \$ 154 |
| State and Federal Unemployment taxes | 77,221 | 17 |
| Workers' Compensation Premiums | 349,758 | 36 |
| Other Misc. Expense | 124,844 | 3 |
| | ----- | ----- |
| Total Cost of Sales | 681,894 | 211 |
| | ----- | ----- |
| Gross Profit | \$ 362,258 | \$ 178 |
| | ===== | ===== |

Cost of services for the three months ended September 30, 2006 was \$681,894 compared to cost of services of \$211,835 for the three months ended September 30, 2005 and is related directly to the delivery of services to its PEO clients. This increase was directly related to the acquisition of United Personal Services and World Wide Personnel Services of Maine, Inc which amounted to \$543,290 for the three months ended September 30, 2006.

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General & administrative expenses, including salaries and wages, was \$674,576 for the three months ended September 30, 2006, compared to \$538,444 in the corresponding period of 2005. This increase was directly related to the acquisition of United Personal Services and World Wide Personnel Services of Maine, Inc which amounted to \$107,433 for the three months ended September 30, 2006.

Sales and marketing expense was \$37,924 for the three months ended September 30, 2006, compared to \$72,732 in the corresponding period of 2005. The decrease was attributed to the company's continued transformation of its sales and marketing function that began in the second quarter of 2004. The decrease in expenses in the third quarter results from the completion of planned fixed expenses and the expiration of marketing contracts.

Depreciation and amortization expense was \$15,389 for the three months ended September 30, 2006, compared to \$15,476 for the corresponding period of 2005. This decrease was from the Human Resource Information System and various other office equipment placed in service in the third and fourth quarter of 2004 which has become fully depreciated.

Interest expense is interest paid and accrued on the Convertible Notes, unpaid payroll taxes, notes payable, and bank financing. Interest expense was \$66,087 for the three months ended September 30, 2006 compared to \$72,763 for the same period of 2005. The decrease is primarily attributable to the reduction of carrying costs of unpaid liabilities and Convertible Notes.

Embedded interest for the three months ended September 30, 2006 was \$333,184 compared to finance expense of \$85,714 for the three months ended September 30, 2005. The Company recorded embedded interest in conjunction with the issuance of convertible debentures during the period.

LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents at September 30, 2006 was \$766,694 compared to \$251,595 at December 31, 2005. The Companies use of cash from operation was \$1,253,966 and \$1,832,023 for the nine months ended September 30, 2006 and September 30, 2005, respectively. The net loss of \$2,288,304 was offset by \$985,965 of non-cash items, the increase in accrued expenses, payroll liabilities and deferred compensation off set by the increase in accounts receivable, insurance deposits and prepaid expenses.

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PACEL CORP. AND SUBSIDIARIES

Net cash provided by investing activities for the nine months ended September 30, 2006 was \$145,957 compared to \$829,728 for the nine months ended September 30, 2005. During the nine months ended September 30, 2006, the cash provided by investment activities was from the acquisition of cash in the United Personnel Services of Maine and Worldwide of Maine, as well as the redemption of a Certificate of Deposit that was being held for the State of Texas offset by the purchase of fixed assets.

During 2003, the Company entered into three separate \$10,000,000 equity lines of credit. Borrowing from this equity line allows the repayment by issuing shares of the Company's stock at a discount rate of up to

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50% off the closing bid stock price. The equity line is being used to fund acquisitions and shortfalls in working capital. These shares were issued pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended, after a hearing with notice to, and an opportunity to be heard from, interested parties, as to the fairness of each transaction. The balance remaining on these equity lines of credit at September 30, 2006 was \$19,819,574. From January 1, 2006 until September 30, 2006, in connection with the funding of working capital shortfalls, the Company converted \$2,247,749 of convertible debentures and issued a total of 4,075,481,946 shares of its common stock with a par value of \$.001.

In March 2006, the Company completed the purchase of all the outstanding shares of stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchases was April 1, 2006 and January 1, 2006 respectively. The Company issued 500,000 shares of Series "C" Convertible Preferred shares to the sole stockholder for United Personnel Services, Inc. and World Wide Personnel Services of Maine, Inc. The value of these shares is \$500,000. \$100,000 has been attributed to the purchase of United Personnel Services, Inc and the remaining \$400,000 is attributed to World Wide Personnel of Maine, Inc. Both companies are licensed Professional Employer Organizations operating in the state of Maine. United Personnel was formed in 1999 and World Wide Personnel of Maine, Inc was formed in 1997. Total Assets acquired in the Acquisition of United Personnel Services and World Wide Personnel of Maine were \$223,106 which included \$63,174 in cash and \$10,000 in fixed assets which consisted of Office/Computer Equipment. Total Liabilities assumed in the Acquisition were \$205,498. Goodwill was valued at \$482,392 of which \$197,720 was impaired. The fair value was determined using discounted cash flows.

Both companies offer full service human resource management services for small and mid-sized businesses. Combined these acquisitions increase the Company's work site employees by approximately 600. The purchase of these companies extends the operating footprint of the Company from the mid-Atlantic region to the northeast region of the country.

The Company's cash requirements for funding its administrative and operating needs continue to greatly exceed its cash flows generated from operations. Such shortfalls and other capital needs continue to be satisfied through equity financing and convertible notes payable until additional funds can be generated through acquisitions and organic business growth. The liabilities of the Company consist of over-extended accounts payable, payroll taxes, and interest expense.

As part of its goal to bring the Company to profitability and less reliant on equity financing for ongoing operations, the company has developed an aggressive marketing strategy as well as an investment to significantly upgrade its HRIS (Human Resource Information System) capabilities to service its current and prospective clients. This plan includes hiring and training the sales team as well as marketing the company's services through networks of national associations and chains. The company has successfully negotiated joint marketing programs to market the company's products and services. During the nine

PACEL CORP. AND SUBSIDIARIES

months ending September 2006 the Company has increased its sales force resulting in an increased client base. New sales began to matriculate

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in the second quarter and continue into the third quarter at which time sales commission expenses will increase. The Company also purchased a fully licensed insurance agency appointed to multiple national carriers for property and casualty insurance lines. This acquisition allows the company to retain insurance commissions as revenue.

In addition to an aggressive organic growth strategy, the Company continues to evaluate potential acquisitions. The Company is seeking to increase its market share in areas contiguous to its existing operations. With the implementation of the HRIS system, the Company has increased its operational capability. Increased market share through acquisition will more fully utilize the HRIS system.

The Company will be able to add additional clients without increasing its operational staff. The reorganization reduces the Company's heavy industry and "blue collar" client base allowing it to expand at a greater pace in other economic sectors which has been a stated goal of the Company. The targeted clients to which the Company is marketing its services have a greater capability to the more automated process integral to the new HRIS system. The reorganization also reduced the Company's reliance on outside equity funding.

The Company relies on equity financing to fund its ongoing operations and investing activities. The Company expects to continue its investing activities, including expenditures for acquisitions, sales and marketing initiatives, HRIS (Human Resource Information System), and administrative support. The loss of equity financing would seriously hinder the Company's ability to execute its business strategy and impair its ability to continue as a going concern.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

CRITICAL ACCOUNTING POLICIES

Basis of presentation-The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has generated significant losses and is unable to predict profitability for the future. These factors indicate that the Company's continuation, as a going concern is dependent upon its ability to obtain adequate financing. The Company plans to address the going concern by obtaining equity financing and to grow the Company with profitable sales both organically and through acquisitions. Management believes successfully executing these tasks will lead to the removal of the going concern comment from our audited financials.

Use of Estimates-Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require

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adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to impairment of goodwill and equity investments, revenue recognition, recoverability of inventory and receivables, the useful lives of long lived assets such as property and equipment, the future realization of deferred income tax benefits and the recording of various accruals. The ultimate outcome and actual results could differ from the estimates and assumptions used.

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PACEL CORP. AND SUBSIDIARIES

Revenue Recognition- The Company's revenue is attributable to fees for providing employment services and commissions for the sale of insurance products. Our revenues are primarily dependent on the number of clients enrolled, the resulting number of worksite employees paid each period. For service fee income, the Company typically enters into agreements for a fixed fee per transaction (e.g., number of payees per payroll) or a fixed percentage of gross payroll. Commission income is paid to the Company as a percentage of premiums paid by the insured to the insurance company.

We account for our revenues that is a fixed percentage of gross payroll in accordance with Emerging Issues Task Force ("EITF") 99-19, Reporting Revenues Gross as a Principal Versus Net as an Agent. Our revenues are derived from our billings, which are based on: the payroll cost of our worksite employees; and a markup computed as a percentage of the payroll cost.

In determining the pricing of the markup component of the billings, we consider our estimates of the costs directly associated with our worksite employees, including payroll taxes and workers' compensation costs, plus an acceptable gross profit margin. We invoice the billings concurrently with each periodic payroll of our worksite employees. Revenues, which exclude the payroll cost component of billings, are recognized ratably over the payroll period as worksite employees perform their service at the client worksite. We include revenues that have been recognized but not invoiced in unbilled accounts receivable on our Consolidated Balance Sheets.

Our revenues are primarily dependent on the number of clients enrolled, the resulting number of worksite employees paid each period. Because our markup is computed as a percentage of payroll cost, revenues are also affected by the payroll cost of worksite employees, which can fluctuate based on the composition of the worksite employee base, inflationary effects on wage levels and differences in the local economies of our markets.

The primary direct costs associated with our revenue generating activities are: employment-related taxes ("payroll taxes"); workers' compensation claim costs.

Payroll taxes consist of the employer's portion of Social Security and Medicare taxes under FICA, federal unemployment taxes and state unemployment taxes. Payroll taxes are generally paid as a percentage of payroll cost. The federal tax rates are defined by federal regulations. State unemployment tax rates are subject to claim histories and vary from state to state.

Principles of consolidation- The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. All significant

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

FORWARD LOOKING STATEMENTS

The Company is making this statement in order to satisfy the "safe harbor" provisions contained in the Private Securities Litigation Reform Act of 1995.

This Form 10-QSB includes forward-looking statements relating to the business of the Company. Forward-looking statements contained herein or in other statements made by the Company are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by forward-looking statements. The Company believes that the following factors, among others, could affect its future performance and cause actual results of the Company to differ materially from those expressed in or implied by forward-looking statements made by or on behalf of the Company: (a) the effect of technological changes; (b) increases in or unexpected losses; (c) increased competition; (d) fluctuations in the costs to operate the business; (e) uninsurable risks; and (f) general economic conditions.

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PACEL CORP. AND SUBSIDIARIES

ITEM 3. CONTROLS AND PROCEDURES.

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer. Based upon that evaluation, we concluded that our disclosure controls and procedures are effective in ensuring that material information related to us, required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and regulations of the SEC. There have been no significant changes in our internal controls subsequent to the date we carried out our evaluation. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about September 9, 2005, an action was filed against the Company in the Supreme Court of New York, County of New York, Case No.

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603823/05, Thomas Kelly; W. David Mc Coy; Richard T. Garrett Trust vs. Pacel Corp. The action alleges that the Company is in default in the payment of amounts owing on certain convertible debentures issued by the Company in March 2001 and subsequently converted to term notes. The action seeks compensatory damages in the amount of \$312,000, plus interest and attorneys fees in an amount yet unspecified.

Reference is made to the Company's previous reports on Form 10-QSB in which the Company disclosed the action filed by the Securities and Exchange Commission against the Company's former officers and directors and the April 7, 2005 grand jury proceedings in the Northern District of Illinois and the subsequent court stay of the Commission's civil action pending the resolution of the criminal proceedings arising from the actions of the grand jury.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company is in default in the payment of the principle amount and accrued interest on certain convertible debentures issued in March 2001 in the aggregate principle amount of \$250,000. The amounts in default exceed 5% of the Company's total assets as of the date of this report.

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PACEL CORP. AND SUBSIDIARIES

ITEM 6. EXHIBITS

| Exhibit No. | Description | Page |
|-------------|---|------|
| 3(i) | Articles of Incorporation | * |
| 3(ii) | Amendments to Articles of Incorporation | * |
| 4 | Designation of Series "B" Convertible Preferred Stock | * |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification | |
| 32.1 | Section 1350 Certification | |

* Incorporation by reference from previous reports and filings.

7. SIGNATURES

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

Pacel Corp.

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BY: /s/ GARY MUSSELMAN

Gary Musselman, President, Chief Executive Officer,
and Chief Financial Officer

DATED: November 10, 2006