PACEL CORP
Form 10QSB
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2002

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)

VIRGINIA	54-1712558
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification Number)

8870 RIXLEW LANE, SUITE 201, MANASSAS, VIRGINIA	20109-3795
(Address of principal executive offices)	(ZIP Code)

Registrant's telephone number, including area code: (703) 257-4759

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 [X] No [ ]

Transitional Small Business Disclosure Format (check one)

Yes [ ] No [X]

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

As of March 31, 2002, there were 6,484,626 shares of the Registrant's common stock outstanding.

PACEL CORP. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION (unaudited)

PACEL CORP. AND SUBSIDIARIES
Balance Sheet
(Unaudited)

	March 31, 2002
	Unaudited
ASSETS	
Current assets:	
Cash and cash equivalents	$ 10,
Accounts receivable, net of allowance for doubtful accounts of $4,326 and $4,326 respectively	117,
Inventory	63,
Other receivables	34,
Total current assets	225,

Property and equipment, net of accumulated depreciation of $98,128 and $91,726 respectively		122,
Non-current assets:		
Note receivable		71,
Goodwill		
Security deposits		25,
Total non-current assets		96,
Total assets	$	444,
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$	1,744,
Accrued expense		297,
Loans payable officers-Stockholders		279,
Notes payable		888,
Notes payable bank		50,
Total current liabilities		3,260,
Long Term liabilities:		
Convertible debentures		868,
Total long term liabilities		868,
Total liabilities		4,128,
Minority interest Commitments:		
Stockholders' equity (deficit)		
Preferred stock, no par value, no liquidation value, 5,000,000 shares authorized, issued 1,000,000 shares 1997 class A convertible preferred stock		11,
Common stock - no par value, 650,000,000 and 650,000,000 shares authorized in 2002 and 2001, respectively. 6,484,626 and 2,470,644 shares outstanding in 2002 and 2001, respectively		7,736,
Cumulative currency translation adjustment		(12,0
Deficit		(11,420,6
Total stockholders' equity (deficit)		(3,684,3
Total liabilities and stockholders' equity	$	444,

The accompanying notes are an integral part of the financial statements

PACEL CORP. AND SUBSIDIARIES
Statements of Operations
(Unaudited)

	Three months	Three month

	Ended March 31, 2002	Ended March 31, 20
Sales	221,168	$ 20
Direct Cost of Goods Sold	198,013	17
Gross Profit	23,155	2
Operating costs and expenses:		
Research and development	103,371	11
Depreciation & Amortization	6,402	
Interest expense	35,295	1
Sales and Marketing	58,901	5
Financing Expenses	3,500	
General and Administrative	1,243,932	38
Total operating costs and expenses	1,451,401	57
Loss before cumulative effect of accounting change	(1,428,246)	(54
Cumulative effect of accounting change	(407,049)	
Net loss	$ (1,835,295)	$ (54
Net (loss) per common share		
Basic	(0.56)	
Diluted	(0.56)	
Weighted Average shares outstanding		
Basic	3,260,666	45
Diluted	3,260,666	45

The accompanying notes are an integral part of the financial statements

F-3

PACEL CORP. AND SUBSIDIARIES
Statements of Cash Flows
(Unaudited)

	2002	2001
Cash flows from operating activities:		

Net (loss)	$ (1,835,295)	$ (545,
Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities:		
Cumulative effect of accounting change	407,049	
Depreciation	6,402	6,
Provision for Bad Debts	0	
Other non cash items	832,850	139,
Increase (Decrease) in Cash from changes in:		
Accounts receivable	218,741	(31,
Other receivables	2,270	(16,
Inventory	4	(3,
Security deposits	(15,237)	
Prepaid expenses		(4,
Accounts payable	147,603	159,
Accrued expense	112,191	(27,
Loans Payable Officers-Stockholders	19,550	(
Net cash (used in) operating activities	(103,872)	(322,
Cash flows from investing activities:		
Purchase of property and equipment	-	(1,
Net cash used in investing activities	-	(1,
Cash flows from financing activities:		
Repayment of Notes payable	(125,362)	
Notes payable convertible debenture	25,000	259,
Proceeds from sale of common stock	150,000	54,
Net cash provided by financing activities	49,638	313,
Effect of exchange rates on cash	(1,000)	1,
Net increase (Decrease) in cash and cash equivalents	(55,234)	(8,
Cash and cash equivalents at beginning of year	65,761	36,
Cash and cash equivalents at end of period	$ 10,527	$ 27,
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	2,775	2,

The accompanying notes are an integral part of the financial statements

PACEL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED
MARCH 31, 2002

1. Basis of Presentation

The unaudited financial statements 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. 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 December 31, 2001 consolidated financial statements and related notes included in the Company's year ended certified financial statements. The results of operations for the three months are not necessarily indicative of the operating results for the year. The Company presumes that users of the interim financial information herein have read or have access to the audited financial statements for the preceding fiscal year 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 for the full year.

2. Accounting for Business Combinations

In July 2001, the FASB issued Statements of Financial Accounting Standards ("Statement") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, goodwill and intangible assets deemed to have an indefinite useful life will be subject to an annual review for impairment. The new standards generally were effective for Pacel in the first quarter of 2002 and for purchase business combinations consummated after June 30, 2001. Upon adoption of FAS 142 in the first quarter of 2002, Pacel recorded a one-time, noncash charge of $407,049 to reduce the carrying value of its goodwill. Such charge is nonoperational in nature and is reflected as cumulative effect of an accounting change in the accompanying consolidated statement of operations..

3. Subsequent events

a. In April 2002, David Calkins president, director and F. Kay Calkins director of Pacel were granted a noncash option to purchase 100,000,000 shares of the company's common stock in exchange for the a loan made to the company in 1999 amounting to $124,000 and securing and loaning to the Company, a personal line of credit of up to $3,000,000 using the stock as collateral. Our ability to draw on this line is based on the volume of the Common Stock multiplied by the VWAP for the thirty days preceding funding must be a minimum of $75,000. The maximum amount of collateral at any closing may not exceed 4.9% of the issued and outstanding shares of the Company. Loan to value is 35%. The interest rate is prime+2 payable in cash quarterly and financing expense of 9% of the draws. The Company will pay these expenses directly. The terms and conditions set fourth in the agreement we may not be able to meet.

b. On April 5, 2002 the Company effected a one-for-one hundred reverse split restating the number of common shares as of March 31, 2002 from 648,462,600 to 6,484,626 and December 31, 2001 from 247,064,400 to 2,470,644. All references to average number of shares outstanding and prices per share have been restated retroactively to reflect the split.

FORWARD-LOOKING STATEMENTS

When used in this document and in our filings with the Securities and Exchange Commission, in our press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties, which could cause our actual results to differ materially from our historical results and those we presently anticipate or project. You should not place undue reliance on any forward-looking statements, which speak only as of the date made. Various factors could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements we express with respect to future periods in any current statement. These factors include, but are not limited to, the following: increases in our operating expenses outpacing our revenues; our inability to expand our sales and distribution channels; the failure of strategic relationships to implement and promote our software products; the failure of third parties to develop software components necessary for the integration of applications using our software; and the use of our intellectual property by others.

We do not undertake--and we specifically decline any obligation--to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL BUSINESS

Item 6. 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 (presented in hundreds, except per share amounts) should be read in conjunction with the consolidated financial statements and notes thereto.

Overview

PACEL's mission is to provide consumers and businesses with a full suite of products and services that provide secure connectivity to and from the Internet, including e-commerce transactions and personnel and company data security. To that end PACEL. and its subsidiaries have been developing products and methods that meet that need for both families and companies. The ChildWatch software suite of programs puts the controls for family computer usage, including internet filtering, access controls and community support for finding missing and abducted children in the hands of the parents and is readily available at Zany Brany and Electronic Boutique stores nationally. "e-Centurion" our latest technology advancement (patent pending) software product will provide complete file and data security. This new software is designed to guard both the Inner Door (full protection on your PC from existing and new viruses), i.e., the Love Bug, and someone trying to penetrate your PC and by-pass your password, and the Outer Door (full Intruder protection from Internet data collection devices and programs or hackers). Our current goal is to utilize and extend these technologies in the production of derivative products to provide secure Internet connectivity and enhanced desktop security for customers in the home and business marketplaces.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Revenues increased 9% to $221,168 in 2002 compared to $202,821 in 2001. The increase in revenues is directly attributed to the sales generated from Advantage Systems. FCL accounted for 24% of sales, Advantage 69% of sales and E-Bstore 7% of sales. The majority of our sales came from hardware sales from Advantage. The sales from FCL fell sharply in the first quarter compared to the first quarter of 2001. RFP's from Nato were not approved in the fourth quarter of 2001 in so delaying those sales to the second quarter of 2002. The Company is focusing it's efforts on expanding it's hardware sales in the United States as well as through existing NATO contracts. The Company continues to believe that the Child Watch software has sales potential when we can obtain adequate financing for the marketing.

Cost of Goods Sold increased 12% to $198,013 in 2002 compared to $176.902 in 2001. The increase is directly attributed to the Advantage division. The sale of hardware generates a smaller gross profit than our other services.

Research and Development expenses consist principally of salaries for software developers, outside consulting, related facilities costs, and expenses associated with computer equipment used in software development. Research and development expenses decreased 10% to $103,371 in 2002 compared to $115,275 2001. Our lack of funding has forced us to cut further research and development on E-Centurion and as well as development of new products and enhancements. The Company believes that research and development activities are crucial to maintaining a competitive edge in markets characterized by rapid rates of technological advancements. Without adequate financing we may not be able to stay on the cutting edge of technology.

Sales and marketing expenses include salaries and benefits, sales commissions, travel expenses, and related facilities costs for our sales, marketing, customer support, and distribution consultants. Sales and marketing expenses also include the costs of programs aimed at increasing revenue, such as advertising, trade shows, public relations, and other market development programs. Sales and marketing expenses increased 17% to $58,901 in 2002 compared to $50,341 in 2001. The increase is attributed to the normal increases in salaries and commission expenses related to the sales in Advantage.

General and administrative expenses consist principally of salaries and benefits, travel expenses, and related facilities costs for finance and administration, human resources, legal, information services, and executive personnel of E-Business-Stor.Com, Inc. and PACEL. General and administrative expenses also include outside legal and accounting fees, and expenses associated with computer equipment and software used in the administration of the business. General and administrative expenses increased 322% $1,243,932 to in 2002 compared to $386,040, in 2001. The increase in administrative expenses is directly related to the acquisition of Advantage Systems administrative salaries and overhead expenses. In addition we issued $826,000 worth of stock for services instead of cash. The cost of the services would have been reduced if we had paid for the services in cash in lieu of stock.

Interest expense and financing cost Increased 302% to $38,795 in 2002 Compared to $12,830 in 2001. The increase in interest expense is due the convertible notes not being converted into common stock because of the low price of our common stock.

Net (Loss) Before the Cumulative Effect of an Accounting Change

Pacel's net loss before the cumulative effect of an accounting change increased to $1,428,246 in 2002, compared to $545,322 in 2001. Pacel's net loss before the cumulative effect of an accounting change increased due to additional

overhead expenses related to the acquisition of Advantage in September 2001 and an increase in interest expense. On several occasions we issued stock in lieu of cash for various services with deep discounted rates compared to the cash value of the services.

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001

Net cash used from operating activities for the three months March 31, 2002 and 2001 was $103,872 and $322,275 respectively. The use of cash in operating activities for the three months ended March 31, 2002 resulted primarily from the short fall in sales off set by the reduction in of accounts receivable and the increase in accounts payable.

Net cash used in investing activities for the three months ended March 31, 2002 and 2001 was $-0- and $1,968 respectively. This decrease was due to lack of funds available for investing activities.

Net cash provided by financing activities for the three months ended March 31, 2002 and 2001 was $49,638 and $313,733. respectively. The decrease in financing activities was attributable to repayment of notes payable of $125,362 and our inability to file an SB-2 in 2001.

At March 31, 2002, we had $10,527 in cash and cash equivalents compared to $27,369 at March 31, 2001. We will continue to have significant capital requirements due to expected increases in our capital expenditures and sales and marketing commitments consistent with our anticipated growth in operations, infrastructure and personnel. We currently anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash.

In December 2001, we entered into a $5,000,000 Equity line of Credit arrangement. Under the terms of the equity line agreement, the Company will have the right to sell up to $5 million of its common stock. The Company has sole discretion, subject to certain volume limitations and conditions, to draw down upon such funds, as its capital needs dictate. We are in the process of filing an SB-2 to register the stock. There are no guarantees that the $5,000,000 will be available to us when we need it. The terms and conditions set fourth in the agreement we may not be able to meet, or the available credit due to those terms and conditions may not be sufficient to cover our immediate cash flow needs. We do not expect to have access to these funds until the third quarter of 2002.

In April 2002, David Calkins president, director and F. Kay Calkins director of Pacel were granted a noncash option to purchase 100,000,000 shares of the company's common stock in exchange for the a loan made to the company in 1999 amounting to $124,000 and securing and loaning to the Company, a personal line of credit of up to $3,000,000 using the stock as collateral. Our ability to draw on this line is based on the volume of the Common Stock multiplied by the VWAP for the thirty days preceding funding must be a minimum of $75,000. The maximum amount of collateral at any closing may not exceed 4.9% of the issued and outstanding shares of the Company. Loan to value is 35%. The interest rate is prime+2 payable in cash quarterly and financing expense of 9% of the draws. The Company will pay these expenses directly. The terms and conditions set fourth in the agreement we may not be able to meet. To date we have drawn $165,500 net of expenses.

Our cash requirements for funding our operations have greatly exceeded cash flows from operations. We continually satisfy our capital needs through equity financing. Our liabilities consist of over extended accounts payable, payroll taxes, loans from officers and officer's compensation.

We continually look for strategic relationships that will enhance our products and services. Due to the present economic conditions in technology and our lack of available cash flow it is becoming harder to develop these relationships. If we do not develop these relationships and find additional sources of financing will hinder our ability to continue as a going concern.

We expect to continue our investing activities, including expenditures for computer systems for research and development, sales and marketing, product support, and administrative staff, as funds become available.

In May 2002, we signed a letter of intent for the acquisition of a human resource support company, for $7,500,000 in Pacel's common stock equal to 60% of the issued and outstanding shares. We believe that this acquisition will expand the type of services we can offer. In addition we will have a direct marketing channel for our IT consulting, System Security, hardware and Web based technologies. We are still in the process of performing due diligence.

Part II

Item 1. Legal Proceedings.

The Company knows of no legal proceedings to which it is a party or to which any of its property is the subject which are pending, threatened or contemplated or any unsatisfied judgments against the Company.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults in Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

Subsequent to March 31, 2002, the following directors resigned due to personal reasons: Keith P. Hicks and Corey M. LaCross.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pacel, Corporation
(Registrant)

Date: May 20, 2002

/s/ David F. Calkins

David F. Calkins, CEO & Chairman