PACEL CORP
Form 10QSB
May 23, 2005

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, 2005

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)
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 [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 May 23, 2004, there were 930,701,020 shares of the Registrant's common stock outstanding.

PACEL CORP. AND SUBSIDIARIES

PACEL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
ASSETS		
Current assets:		
Cash	$ 231,879	$ 117,052
Client deposit and advance payments	316,071	826,598
Accounts receivable	5,686	230,469
Accounts receivable-Unbilled	743,535	310,845
Prepaid expenses	86,179	110,408
Workers compensation insurance deposits	112,602	139,089
Restricted cash	916,089	913,009
Total current assets	2,412,041	2,647,470
Property and equipment, net of accumulated depreciation of $84,879 and $70,436, respectively	171,793	147,831
Other assets:		
Retirement Plan-Director	142,172	154,772
Goodwill	708,693	1,075,432
Security deposits	18,358	15,182
Total other assets	869,223	1,245,386
Total assets	$ 3,453,057	$ 4,040,687

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 409,908	$ 242,210
Payroll and payroll related liabilities	2,240,158	2,511,224
Accrued work site employee payroll expense	719,555	300,391
Accrued expenses	1,688,314	1,330,456
Assumed Liabilities	493,133	493,133
Client deposits and advance payments	316,071	826,598
Short term payables	2,288,295	2,158,251
Sales taxes payable	491	-0-
Total current liabilities	8,155,925	7,862,263
Long-term liabilities:		
Notes Payable	239,781	-0-
Deferred Compensation-Director Payable	142,172	154,772
Total long-term liabilities	381,953	154,772
Total liabilities	8,537,878	8,017,035
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	1,000	1,000
Common stock, .001 par value, 10,000,000,000 shares authorized, 927,726,020 and 1,773,001 shares issued and outstanding in 2005 and 2004 respectively.	927,726	1,773
Additional paid-in capital	22,225,998	22,401,562
Cumulative currency translation adjustment	(18,720)	(18,720)
Accumulated deficit	(28,220,825)	(26,361,963)
Total stockholders' (deficit)	(5,084,821)	(3,976,348)
Total liabilities and stockholders' deficit	$ 3,453,057	$ 4,040,687

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue	$ 423,787	$ 371,868
Cost of services	326,963	288,973
Gross profit	96,824	82,895
Operating costs and expenses:		
General and administrative	643,090	382,398
Sales & Marketing	238,942	101,988
Depreciation and amortization	14,444	6,500
Loss on impairment of goodwill	599,689	-0-
Total operating expenses	1,496,165	490,886
Operating loss	(1,399,341)	(407,991)
Other expenses:		
Interest expense	92,801	41,157
Financing costs	260,500	245,000
Total other expenses	353,301	286,157
Net loss before discontinued operations	(1,752,642)	(694,148)
Loss from discontinued operations of AsmaraHR	106,221	92,864
Net loss	$ (1,858,863)	$ (787,012)
Loss from discontinued operations per common and common equivalent share:		
Basic	$ (0.001)	$ (30,954.67)
Diluted	$ (0.001)	$ (30,954.67)
Net loss per common and common equivalent share:		
Basic	$ (0.02)	$ (262,337.33)
Diluted	$ (0.02)	$ (262,337.33)
Weighted average shares outstanding:		
Basic	100,775,152	3
Diluted	100,775,152	3

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Cash flows from operating activities:		
Net loss	$ (1,858,863)	$ (787,012)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	14,444	6,500
Embedded interest	257,143	245,000
Other non-cash items	-0-	90,000
Loss on impairment of goodwill	599,689	-0-
Increase (decrease) in cash from changes in assets:		
Accounts receivable	224,783	54,598
Accounts receivable-Unbilled	(432,690)	-0-
Other receivables	-0-	32,802
Client deposits	510,527	499,988
Insurance deposits	26,486	-0-
Prepaid expenses	43,129	(68,255)
Security deposits	(1,926)	(875)
Increase (decrease) in cash from changes in liabilities:		
Accounts payable	167,698	(129,750)
Accrued expenses	357,858	(71,441)
Accrued expenses-Director	-0-	(52,442)
Payroll and payroll related liabilities	(277,186)	(536,624)
Accrued work site employee payroll cost	419,164	-0-
Deferred Revenue	(510,527)	(499,988)
Assumed liabilities	-0-	(189,190)
Sales and income taxes payable	491	(2,532)
Net cash (used in) operating activities	(459,780)	(1,409,221)
Cash flows from investing activities:		
Net purchases of property and equipment	(13,384)	(50,262)
Cash CD-Restricted	(3,080)	-0-
Net cash (used in) investing activities	(16,464)	(50,262)
Cash flows from financing activities:		
Repayments of notes payable	(6,273)	(33,000)
Issuance of notes payable	-0-	90,000
Issuance of convertible notes payable	600,000	755,898
Receipts of stock subscription receivables	-0-	50,000
Repayments of lines of credit	(2,656)	(1,732)
Repayments of capital lease	-0-	(6,829)
Net cash provided by financing activities	591,071	854,337
Net increase (decrease) in cash and cash equivalents	114,827	(605,146)
Cash and cash equivalents, beginning of period	117,052	682,400
Cash and cash equivalents, end of period	$ 231,879	$ 77,254

See accompanying notes to the consolidated financial statements.

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

	Three months ended March 31, 2005	Three months ended March 31, 2004
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,080	$ 22,598

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
March 31, 2005

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, 2004. 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.

Note 2. 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 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.

Note 3. Revenue Recognition.

We account for our revenues 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.

Note 3. Revenue Recognition.

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:

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 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.

Note 4. Common Stock.

In February 2005, the Company effected a one-for-one thousand reverse stock split restating the number of common shares of the Company at December 31, 2004 from 1,773,000,943 to 1,773,001. All references to average number of shares, shares outstanding and prices per share have been restated retroactively to reflect the split.

In January 2005, by written consent of a majority of stockholders, the Company adopted an amendment to the Corporations' Certificate of Incorporation to increase the number of authorized shares of common stock, from 2,000,000,000 to 10,000,000,000 shares.

In January 2005, by written consent of a majority of stockholders, the Company changed its corporate domicile from Virginia to Nevada. Due to Nevada requirements, the Company's common stock par value changed from no par value to .001 par value. As a result of this change, common stock for the year ended December 31, 2004 was restated from $22,443,015 to $1,773.

Note 5. Acquisitions

In January 2005, the Company, through its wholly-owned subsidiary The Resourcing Solutions Group, Inc., completed the acquisition of certain assets of Rossar HR LLC, a Pennsylvania limited liability company, which operated under the name "Your Staff Solutions". Rossar HR LLC is a Professional Employment Organization founded in the 1987 which specializes in quality human resource management services for small to medium sized businesses. Consideration under such agreement did not contemplate any cash paid to the seller at closing, but call for a Promissory Note of $272,000 to be paid in equal monthly installments over ten years. The Company recorded the acquisition as a purchase and recorded $52,000 of fees and $232,950 of goodwill in association with this acquisition.

Note 6. 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 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 has ordered the Company and Calkins to provide an accounting of their assets and the transactions that are the subject of the complaint. Pursuant to an agreement of the parties, an accounting of the transactions at issue was provided on June 30, 2004. The Company and Calkins answered the second amended complaint on March 23, 2005. Under the current scheduling order fact discovery must be completed by June 21, 2005. Final dispositive pre-trial motion deadlines will be set by the trial judge. A trial date has not yet been set.

Note 7. Client Deposit

The Company had $316,071 in Deferred Revenue on March 31, 2005 related to amounts prepaid for 2005 services from a single client. The Company executed a letter agreement in conjunction with receipt of these funds that provides the funds be held in separate trust account by the Company and not commingled with any other general use funds of the Company. The Company draws down the pre-payment account as needed to fund the payment of payroll, deposit taxes, benefits, fees and other costs for this single client pursuant to the agreement. The Company is currently in violation of this agreement.

Note 8. Restricted Cash

During the first quarter of 2005, as part of the Company acquiring new office space, the landlord required the Company to secure an irrevocable letters of credit with an interest bearing CD (certificate of deposits). The value of the CD on March 31, 2005 was $100,239.

During the second quarter of 2004, the Company entered into an agreement with a national bank to develop a program that eliminates the need for multiple banks. During the credit review process, the bank required the Company to secure its ACH (automated clearing house) exposure with a standby letter of credit. ACH transactions are used to collect funds due from the Company's clients for PEO services along with depositing funds into employee bank accounts that have elected direct deposit as a means of wage payment. The Company secured this standby letter of credit with an interest bearing CD (certificate of deposit) in the amount of $600,000. In the first quarter of 2005, the Company reduced the standby letter of credit to $500,000. The value of the CD on March 31, 2005 was $508,218.

Note 9. Subsequent Event

On May 15, 2005, The Resourcing Solutions Group, Inc. a subsidiary of the Company sold 16 PEO accounts located primarily in North Carolina, South Carolina and Florida to Allegro, Inc. for approximately $240,000 and is expected to report a net after tax loss of approximately $468,000. The Company will receive the $240,000 over the next 12 months. The Company wrote off approximately $468,000 in Goodwill as a result of the sale of these contracts. As a result of this sale, activities related to these contracts have been accounted for as discontinued operations.

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 2005, 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 2003, the Company successfully completed the acquisition of two existing 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 at a future time.

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. The company has also engaged Thinkware Corporation to implement its new HRIS system. This system will provide the company with "state-of-the-art" human resource data necessary to service the growing needs of small to mid-size clients as well as automate the company's internal processes. The HRIS system became fully operational in January 2005.

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 and other HR related services. The Company is currently working to establish the national vendor relationships it believes are necessary to effectively and competitively provide such services to a broad range of clients.

In a further effort to bring the Company to profitability it evaluated its internal operating costs and evaluated each existing client to determine profitability. The Company determined that certain clients were not producing sufficient gross profit. In May 2005, the Company sold 16 contracts to Allegro, Inc. approximately $240,000. The Company will establish a receivable for $240,000 for the sale of these contracts.

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

Three Months ended March 31, 2005 compared to the Three Months ended March 31, 2004

Revenue for the quarter ended March 31, 2005 increased approximately $51,900 to $423,787 compared to revenue of $371,868 for the quarter ended March 31, 2004. Revenues generated from the Rossar acquisition accounted for $135,645 of the increase offset by a decrease of $83,726 from the Company's existing clients.

The company experienced a decrease in the number of work site employees it provided PEO services to during the quarter ended March 31, 2005 compared to the quarter ended March 31, 2004. The company generates its revenue from services relating to work site employees. This decrease in work site employees was primarily from large construction and heavy industrial clients that terminated PEO services with the company for reasons ranging from plant and company closings to clients bringing the services typically offered in a PEO relationship in-house. The PEO industry as a whole has found it more difficult to provide the PEO services to construction and heavy industrial clients because of its inability to obtain workers compensation insurance. The company has focused its sales and marketing effort to white collar and light industrial clients where workers compensation insurance is readily and economically accessible.

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 March 31, 2005 and March 31, 2004.

	Three months ended March 31, 2005 (Unaudited)	Three months e March 31, 2004 (Unaudited
Reconciliation of billings to revenue recognized:		
Gross billings to clients	$ 3,467,634	$ 2,341,
Less - Gross wages billed to clients	(3,043,847)	(1,970,
Total revenue as reported	$ 423,787	$ 371,

PACEL CORP. AND SUBSIDIARIES

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

Cost of services for the three months ended March 31, 2005 was $326,963 compared to cost of services of $288,973 for the three months ended March 31, 2004 and is related directly to the delivery of services to its PEO clients. This increase was directly related to the increase in revenue.

General & administrative expenses, including salaries and wages, increased to $643,090 for the three months ended March 31, 2005, compared to $382,398 in the corresponding period of 2004. The increase was attributed additional expenditures needed to support the operations along with the general and administrative expenses acquired with the Rossar HR acquisition.

Sales and marketing expenses increased to $238,942 for the three months ended March 31, 2005, compared to $101,988 in the corresponding period of 2004. The increase was attributed to the company's continued transformation of its sales and marketing function that began in the second quarter of 2004.

Depreciation expenses increased to $14,444 for the three months ended March 31, 2005, compared to $6,500 for the corresponding period of 2004. This increase was from the Human Resource Information System and various other office equipment placed in service in the third and forth quarter of 2004.

Interest expense is interest paid and accrued on the Convertible Notes, unpaid payroll taxes, notes payable, bank financing, and capital leases. Interest expense amounted to $92,801 for the three months ended

March 31, 2005 compared to $41,157 for the same period of 2004. The increase is primarily attributable to the continued use of financing for working capital.

Finance expense for the three months ended March 31, 2005 increased $15,500 to $260,500 when compared to finance expense of $245,000 for the three months ended March 31, 2004. The increase was the result of increased funding requirements for administrative and operational needs. The Company recorded imbedded interest in conjunction with the issuance of convertible debentures during the period assuming conversion of such debt was available on an immediate basis and has incurred fees associated with accessing its lines of credit.

LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents at March 31, 2005 increased to $231,879 from $117,052 at December 31, 2004. Net cash used for operating activities was $459,780 during the three months ended March 31, 2005 compared to $1,409,221 in the corresponding period of 2004. The cash used in operating activities is attributable to the decrease in accounts receivable, insurance deposits, payroll and payroll related liabilities, accounts payable and accrued expenses offset by increases in net loss, unbilled accounts receivable, security deposits, and payroll and payroll related liabilities.

Net cash used in investing activities for the three months ended March 31, 2005 was $16,464. The cash used in investing activities is attributable to computer equipment and software purchased for the company's business information system implementation and the increased investment in CD's. This compares to net cash used for investing activities for the three months ended March 31, 2004 of $50,262.

Net cash provided by financing activities in the three months ended March 31, 2005 was $591,071 compared to $854,337 in the corresponding period ended March 31, 2004. The cash provided during both periods is directly related to the Company's execution and utilization of three equity-based lines of credit.

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PACEL CORP. AND SUBSIDIARIES

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

In August 2003, the Company entered into an equity line of credit for $10,000,000 from Compass Capital Inc., Kentan Ltd, Reef Holding Ltd, and T&B Associates, Inc. Borrowing from this equity line allows the repayment by issuing shares of the Company's stock at a discount rate of up to 50%. The line is being used to fund acquisitions and shortfalls in working capital. During the three months ended March 31, 2005, the Company drew down $600,000 and issued 6,170,700,000 shares unrestricted shares of the Company's .001 par common stock, before adjusting such shares to reflect the effects of any stock splits occurring subsequent to issuance. After giving effect to the one-for-one hundred reverse split on February 28, 2005, 925,950,000 shares were issued in conjunction with this equity line. The balance remaining on this equity line of credit at May 23, 2005 was $2,369,102. The lenders are not obligated to fund the remaining balance on this equity line of credit and may discontinue funding the Company at any time without any further obligation.

In January 2005, the Company, through its wholly-owned subsidiary The Resourcing Solutions Group, Inc., completed the acquisition of certain assets of Rossar HR LLC, a Pennsylvania limited liability company, which operated under the name "Your Staff Solutions". Rossar HR LLC is a Professional Employment Organization founded in the 1987 which specializes in quality human resource management services for small to medium sized businesses. Consideration under such agreement did not contemplate any cash paid to the seller at closing, but call for a Promissory Note of $272,000 to be paid in equal monthly installments over ten years. The Company recorded $52,000 of fees and $232,950 of goodwill in conjunction with this acquisition.

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. The company has also engaged Thinkware Corporation to implement its new HRIS system. This system will provide the company with "state-of-the-art" human resource data necessary to service the growing needs of small to mid-size clients as well as automate the company's internal processes. The HRIS system became fully operational in January 2005.

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

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 its current equity financing would seriously hinder the Company's ability to execute its business strategy and impair its ability to continue as a going concern.

In a further effort to bring the Company to profitability it evaluated its internal operating costs and evaluated each existing client to determine profitability. The Company determined that certain clients were not producing sufficient gross profit. In May 2005, the Company sold 16 contracts to Allegro, Inc. for approximately $240,000. The Company estimates the sales of these contracts will reduce annual operating losses by approximately $325,000.

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.

Item 3. CONTROLS AND PROCEDURES.

As of March 31, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Principal Executive Officer and the Principal Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2005. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2005.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 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 has ordered the Company and Calkins to provide an accounting of their assets and the transactions that are the subject of the complaint. Pursuant to an agreement of the parties, an accounting of the transactions at issue was provided on June 30, 2004. The Company and Calkins answered the second amended complaint on March 23, 2005. Under the current scheduling order fact discovery must be completed by June 21, 2005. Final dispositive pre-trial motion deadlines will be set by the trial judge. A trial date has not yet been set.

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

In February 2005, the Company effected a one-for-one thousand reverse stock split restating the number of common shares of the Company at December 31, 2004 from 1,773,000,943 to 1,773,001. All references to average number of shares, shares outstanding and prices per share have been restated retroactively to reflect the split.

In January 2005, by written consent of a majority of stockholders, the Company adopted an amendment to the Corporations' Certificate of Incorporation to increase the number of authorized shares of common stock, from 2,000,000,000 to 10,000,000,000 shares.

In January 2005, by written consent of a majority of stockholders, the Company changed its corporate domicile from Virginia to Nevada. Due to Nevada requirements, the Company's common stock par value changed from no par value to .001 par value. As a result of this change, common stock for the year ended December 31, 2004 was restated from $22,443,015 to $1,773.

Item 6. Exhibits and Reports

The following reports were filed during the period covered by this Form 10-QSB:

January 6, 2005	Item 2.01. Completion of acquisition or disposal of asset Item 9.01. Financial Statements and Exhibits
January 12, 2005	Item 2.01. Completion of acquisition or disposal of asset Item 9.01. Financial Statements and Exhibits
January 24, 2005	Item 5.02. Departure of directors or principal officers; election of directors; appointment of principal officers Item 5.03. Amendment to articles of incorporation or bylaws; changes in fiscal year Item 8.01. Other events

March 11, 2005	Item 5.02.	Departure of directors or principal officers; election of directors; appointment of principal officers
	Item 5.03.	Amendment to articles of incorporation or bylaws; changes in fiscal year
March 25, 2005	Item 1.01.	Entry into a material definitive agreement
	Item 9.01.	Financial Statements and Exhibits

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Item 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.

BY: /s/ GARY MUSSELMAN

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

DATED: May 23, 2005

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