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PACEL CORP  
Form 10KSB  
April 13, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-KSB

(Mark One)

Annual report under Section 13 or 13(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2005

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-29459

Pacel Corporation

-----  
(Name of small business issuer in its charter)

NEVADA

54-1712558

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(IRS Employer Identification Number)

7621 Little Ave Suite 101  
Charlotte, North Carolina

28226

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Issuers telephone number: (704) 643-0676

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which registered

None

N/A

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE .001 PER SHARE

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(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporate by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenue for the fiscal year ended December 31, 2005 was \$2,240,843

As of April 13, 2006, the aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant computed by reference to the average bid and asked price of such common equity on that date was \$ 9,970,541. As of April 13, 2006, the issuer had 9,970,540,904 outstanding shares of common stock.

Transitional small business format Yes [ \_ ] No [ X ]

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## PART I.

### ITEM 1. DESCRIPTION OF BUSINESS

#### GENERAL OVERVIEW

The Company provides a comprehensive Personnel Management System that encompasses a broad range of services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, employer liability management, employee recruiting and selection, employee performance management, and employee training and development services.

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 HRO market is a component part of the Business Process Outsourcing ("BPO") industry. The broad category of BPO is a huge area that includes such outsourced functions as information technology, human resources, logistics, facilities management and finance/accounting where an external provider assumes responsibility to own, manage and administer a particular process on the basis of performance criteria that have been mutually agreed upon. HRO is a large and complex universe in itself, encompassing the outsourcing of the many different functions generally considered to be the domain of the Human Resources department.

The HRO industry began to evolve in the early 1980s, largely in response to the difficulties faced by small to medium sized businesses in procuring workers' compensation and group health insurance coverage on a cost-effective basis and operating in an increasingly complex legal and regulatory environment. While various service providers, such as payroll processing firms, benefits and safety consultants and temporary staffing firms were available to assist these businesses with specific tasks, PEOs began to emerge as providers of a more comprehensive outsourcing solution. PEOs combined the employees of a large number of clients and leveraged their purchasing power to obtain workers' compensation and group health programs. With the subsequent hardening of those insurance markets for PEOs in the early 2000's, PEOs began investigating additional market opportunities for further development of their business model.

The Company began its entry into the HRO market through the 2003 acquisition of two Professional Employer Organizations ("PEO") located in North Carolina and Texas. The Company is focusing its efforts on the PEO and Administrative Services Organization ("ASO") sectors of the HRO industry, providing human capital management solutions to small and medium sized business clients within the United States. Evaluation of organic growth strategies combined with continued scrutiny and examination of potential acquisition candidates continues in order to secure the Company's position as a leader within the industry. Though the Company remains exclusively focused on the PEO and ASO markets at this time, it sees its entry into these markets as an opportunity to tap into the lucrative small business BPO market and intends to complement its PEO and ASO activities with additional services such as information technology services, business consulting and financial services at a still undetermined future time. In 2005, the Company continues its focus on its PEO and ASO business model, evaluating, completing and integrating planned acquisitions, developing leading vendor relationships and establishing itself as an industry leader. To further improve services by the Company to its clients a major investment in upgrading

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technology occurred during 2004. The Company implemented new systems that integrate Human Resource, payroll, benefits and workers' compensation administration. The advent of this system permits to Company to effectively market to larger clients.

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Through its PEO and ASO business unit, the Company markets to its clients, typically small to medium sized businesses with between five (5) and one thousand (1,000) employees, a broad range of products and services that provide an outsourced solution for the client's Human Resources ("HR") needs. Industry estimates indicate that this "middle market" opportunity encompasses approximately 100,000 small to medium-sized businesses employing over 40 million people. Another benefit of the industry is that the target market is not restricted as to industry, sector or size. Virtually every company has human resources needs and almost all can benefit from some level of outsourcing. Smaller firms appreciate the professional expertise and pooled resources brought by a PEO or ASO while the potential for economies of scale created by outsourcing the heavily transaction-intensive HR function make a compelling economic argument. The Company's service offerings include payroll services, benefits administration, governmental compliance, risk management, unemployment administration, and health, welfare and retirement plan benefits. Although the Company maintains successful relationships with its existing vendors in the mid-Atlantic area of the United States, it continues negotiations with several national vendors in these areas in order to effectively and competitively provide such services to a broad range of clients on a national scale.

By allowing the management of these small to medium sized business clients to focus on the "business of business" rather than the complicated and time consuming administrative tasks of managing human capital issues, the Company, in delivering its services, should be well positioned to improve the efficiency of its clients' businesses, enhancing their ability to be profitable in their chosen marketplace. Additionally, such initiatives as improving their ability to attract and retain talent, improving the planning and management of payroll cash flows and managing employment risks should enhance the success of the Company's clients.

In a PEO relationship, the client transfers certain employment-related risks and liabilities to the Company and retains other risks and liabilities. In this context, the client and the Company are each viewed as and become a "co-employer" of the client's worksite employees. In order to enter into a co-employer relationship, the Company operates as a Professional Employer Organization.

As a co-employer, employment-related liabilities are contractually allocated between the Company and the client under a written Professional Services Agreement. Under the Professional Services Agreement, the Company assumes responsibility for and manages the risks associated with each client's worksite employee payroll obligations, including the liability for payment of salaries and wages (including payroll taxes) to each worksite employee and, at the client's options, responsibility for planning, providing and administering group health, welfare and retirement benefits to such individuals. These obligations of the Company are fixed, whether or not the client makes timely payment of the associated service fee. In this regard, it is important to understand that, unlike payroll processing service providers, the Company issues to each of the client's worksite employees, Company payroll checks drawn on the Company's bank accounts. The Company also reports and remits all required employment information and taxes to the Internal Revenue Service ("IRS") and issues a Federal Form W-2 to each worksite employee under the appropriate Company Federal Employer Identification Number ("FEIN"). The Company assumes the responsibility for compliance with those employment-related governmental regulations that can be effectively managed away from the client's worksite. In many cases, the

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Company provides the employee workers' compensation insurance coverage under the Company's insurance policy. The client may elect, or the workers' compensation carrier may require, retaining its own policy for the management of this risk. In all cases, the Company remains heavily involved with safety and risk management to assist the client in controlling risk and potentially reducing the cost of such coverage. The client contractually retains the general day-to-day responsibility to direct, control, hire, terminate and manage each of the client's worksite employees. The worksite employee services are performed for the exclusive benefit of the client's business. The client also remains responsible for compliance with those employment-related governmental regulations that are more closely related to the day-to-day management of worksite employees.

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In an ASO relationship, the client retains all employment-related risks and liabilities and the Company provides outsourced solutions to meet the administrative and HR needs of the client.

The Company charges its clients a service fee that is designed to yield a profit to the Company and cover the cost of certain employment-related taxes, workers' compensation insurance coverage and administrative and field services provided by the Company to the client. The component of the service fee related to administration varies according to the size of the client, the amount and frequency of payroll payments, whether a PEO or an ASO arrangement and the method of delivery for such payments. In a PEO relationship, the component of the service fee related to workers' compensation and unemployment insurance is based, in part, on the client's historical claims experience. In addition, the client may choose to offer certain health, welfare and retirement benefits to its worksite employees. In addition to the service fee and costs of selected benefit plans, billings to each client also include the wages and other employment-related taxes of each worksite employee. The billings are invoiced at the time of each periodic payroll delivered to the client.

Currently, the Company provides workers' compensation insurance coverage for its worksite employees through several vendor arrangements, depending on the geographic location of the client's worksite(s). The Company has, to date, been unsuccessful in obtaining a national program for its current client base and anticipated growth. The Company is continuing negotiations with several carriers in order to obtain such national coverage program. The Company pays the premium for coverage and passes to its clients some or all of the costs attributable to the coverage for their respective worksite employees in its service fee. The Company does not act as an insurance company. However, as part of a 2003 acquisition, the Company acquired a fully-licensed, but non-operating, North Carolina-based insurance company. The Company does assume certain workers' compensation risk as a result of providing these services.

### Human Resources Outsourcing Industry

Human Resources Outsourcing ("HRO") is a subset of the more comprehensive Business Process Outsourcing ("BPO") sector. Since the 1980's, American industry has embraced the general concept of outsourcing non-core or non-mission critical processes, incorporating it into the American way of business. Outsourcing is perceived as bringing economies of scale, higher levels of expertise and greater efficiency to those processes.

One of the sectors of the HRO industry began to evolve in the early 1980s, largely in response to the difficulties faced by small to medium-sized businesses in procuring workers' compensation and group health insurance coverage on a cost-effective basis and operating in an increasingly complex legal and regulatory environment. While various service providers, such as payroll processing firms, benefits and safety consultants and temporary staffing

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firms, were available to assist these businesses with specific tasks, Professional Employer Organizations ("PEO") began to emerge as providers of a more comprehensive outsourcing solution for these activities. PEOs combined the employees of a large number of clients and leveraged their purchasing power to obtain more cost-effective workers' compensation and group health insurance programs.

The Company believes that the key factors driving demand for HRO services are the increasing acceptance in the small to medium-sized business community of outsourcing certain non-core business functions such as those offered by the Company; the size and growth of the small to medium-sized business community in the United States; the increasing complexity of employment-related governmental regulations and the related costs of compliance with those regulations; the need of businesses to manage the cash expenditures associated with payroll and payroll-related expenses, including workers' compensation insurance; and the need to provide competitive benefit programs, including health, welfare and retirement, on a cost-effective and convenient basis.

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The Company further believes that many small to mid-sized businesses recognize the need to manage employee data and information in a single coordinated basis. During 2004, the Company invested in a "state-of the art" Human Resource Information System with an integrated payroll system as a mechanism to address this need by the business community. Utilization of the Company's systems allow small to mid-sized businesses to offer capabilities previously associated with only larger businesses. This system became fully functional in 2005.

Another factor affecting the HRO industry has been the increasing recognition and acceptance by regulatory authorities of PEOs and the co-employer relationship that exists when a client contract with a PEO for services reflected in the development of licensing or registration requirements at the state level. The National Association of Professional Employer Organizations ("NAPEO"), of which the Company is a member, has worked, along with industry leaders, with the relevant government entities for the establishment of a regulatory framework that would clarify the roles and obligations of the PEO and the client in the co-employer relationship. This framework generally imposes financial responsibility on the PEO in order to promote the increased acceptance and further development of the industry.

Twenty-six states, including states where the Company currently has operations, have passed laws that have licensing, registration or other regulatory requirements for PEOs and several additional states are considering such regulation. Such laws vary from state to state, but generally codify the requirements that the PEO must reserve the right to hire, terminate and discipline worksite employees and secure workers' compensation insurance. In certain instances, the Company delegates or assigns such rights to the client. The laws also generally provide for monitoring the fiscal responsibility of the PEOs and, in many cases, the licensure of the controlling officers of the PEO.

Since the late 1990's, due to changes in the workers' compensation and group health insurance markets, many PEOs have encountered significant difficulties in obtaining workers' compensation and group health benefit insurance policies. Many PEOs have exited the industry due to the lack of available workers' compensation and group health benefit insurance programs or due to their inability to provide the financing security required by insurance companies in order to obtain such coverage. The Company views this continued pressure on the market as an opportunity, providing potentially viable acquisition targets to further support its business development strategy. The Company also views this continued pressure as an opportunity to expand its Administrative Services.

All of the Company's clients are required to enter into the Company's

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Professional Services Agreement (the "PSA"). The PSA provides for an initial one-year term and is subject to termination by the Company or the client at any time upon thirty (30) days written notice. The Company has several versions of its basic PSA and utilizes each depending upon the relationship with the client. Clients may enter into PEO or Administrative Services Only ("ASO") arrangements, may bring their own benefit programs, provide their own workers' compensation coverage, use only payroll services, etc. and the agreement is available to be modified to suit the individual client's needs and elections. After the initial one-year term, the contract may be renewed or terminated. Based on the results of a financial review, the Company may require the owners of client companies to personally guarantee the client's obligations under the PSA.

In the PEO environment the PSA also establishes the division of responsibilities between the Company and the client as co-employers. Pursuant to the PSA, we are responsible for personnel administration and are liable for certain employment-related government regulations. In addition, we assume liability for payment of salaries and wages (as well as related payroll taxes) of our worksite employees and responsibility for providing specified employee benefits to such persons. These liabilities are not contingent on the prepayment by the client of the associated comprehensive service fee and, as a result of our employment relationship with each of our worksite employees, we are liable for payment of salary and wages to the worksite employees and are responsible for providing specified employee benefits to such persons, regardless of whether the client company pays the associated comprehensive service fee. The client retains the employees' services and remains liable for the purposes of certain government regulations, compliance

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with which requires control of the worksite or daily supervisory responsibility or is otherwise beyond our ability to assume. A third group of responsibilities and liabilities are shared by the Company and the client where such joint responsibility is appropriate. The specific division of applicable responsibilities under the PSA is as follows:

### The Company

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- o Payment of wages and related tax reporting and remittance (local, state and federal withholding, FICA, FUTA, state unemployment
- o Workers' compensation compliance, procurement, management and reporting;
- o Compliance with COBRA, HIPAA and ERISA (for each employee benefit plan sponsored by the Company only), as well as monitoring changes in other governmental regulations governing the employer/employee relationship and updating the client when necessary; and
- o Employee benefits administration of plans.

### Client

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- o Payment, through the Company, of commissions, bonuses, paid leaves of absence and severance payments;
- o Payment and related tax reporting and remittance of non-qualified deferred compensation and equity-based compensation;
- o Assignment to, and ownership of, all client intellectual property rights;
- o Compliance with OSHA regulations, EPA regulations, FLSA, WARN, USERRA and state and local equivalents and compliance with government contracting provisions;
- o Compliance with the National Labor Relations Act ("NLRA"), including all organizing efforts and expenses related to a collective bargaining

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- agreement and related benefits;
- o Professional licensing requirements, fidelity bonding and professional liability insurance
- o Products produced and/or services provided; and
- o ERISA compliance for client-sponsored benefit plans.

### Joint

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- o Implementation of policies and practices relating to the employee/employer relationship; and
- o Compliance with all federal, state and local employment laws, including, but not limited to Title VII of the Civil Rights Act of 1964, ADEA, Title I of ADA, FMLA, the Consumer Credit Protection Act, and immigration laws and regulations.

Because we are a co-employer with the client company for some purposes, it is possible that we could incur liability for violations of such laws, even if we are not responsible for the conduct giving rise to such liability. The PSA addresses this issue by providing that the client will indemnify us for liability incurred to the extent the liability is attributable to conduct by the client. Notwithstanding this contractual right to indemnification, it is possible that we could be unable to collect on a claim for indemnification and may therefore be ultimately responsible for satisfying the liability in question.

The Company retains the right to terminate the PSA as well as its co-employment relationship, if applicable, with the worksite employees immediately upon non-payment by a client. The Company manages its credit risk through the periodic nature of payroll, client credit and banking checks, owner guarantees, the Company's client selection process and its right to terminate the PSA and the co-employment relationship with the worksite employees.

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In the ASO environment the PSA defines the responsibility of each party. There is no co-employment relationship in the ASO environment, thus, the Company has no employer liability. The Company acts as an agent of the client and has a contractual obligation to perform the functions contracted by the Client. The PSA in the ASO environment is tailored to the specific needs of the Client. Typically the Company has a contractual obligation for the following:

- o Payment of wages and related tax reporting and remittance (local, state and federal withholding, FICA, FUTA, state unemployment;
- o Compliance with COBRA, and HIPAA, as well as monitoring changes in other governmental regulations governing the employer/employee relationship and updating the client when necessary; and
- o Employee benefits administration of plans.

The Client is responsible for all other employer responsibilities.

The Company retains the right to terminate the PSA as well as its co-employment relationship, if applicable, with the worksite employees immediately upon non-payment by a client. The Company manages its credit risk through the periodic nature of payroll, client credit and banking checks, owner guarantees, the Company's client selection process and its right to terminate the PSA and the co-employment relationship with the worksite employees.

### Competition

The PEO sector of the industry is highly fragmented. The primary competition is other PEOs, insurance agents, and fee-for-service providers, such as payroll



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processors and HR consultants. The market for human resources consulting services is expected to become increasingly competitive as larger companies, some of which have greater financial resources than the Company, compete in the market.

The key competitive factors in the HRO industry are breadth and quality of services, price, reputation, financial stability, and choice, quality and cost of benefits. The Company will seek to compete through its ability to provide a full-service HR solution using a variety of delivery methods best suited to the individual client with an emphasis on leveraging technology.

The Company believes that some smaller PEOs are exiting the industry due to increased collateral required by providers of workers' compensation and health benefits insurance. In addition, an increase in costs and a lack of available workers' compensation and health benefits insurance programs is impacting these PEOs.

The ASO sector of the industry is equally fragmented. The primary competition is from small payroll processors and very large companies who are payroll processors. The Company believes there is a large gap in the middle of this arena allowing for the possibility of growth.

### Industry Regulation

Numerous federal and state laws and regulations relating to employment matters, benefit plans and employment taxes affect the operations of the Company. By entering into a co-employer relationship with its clients, the Company assumes certain obligations and responsibilities as an employer under these laws. Because many of these federal and state laws were enacted before the development of non-traditional employment relationships, such as PEOs, temporary employment and other employment-related outsourcing arrangements, many of these laws do not specifically address the obligations and responsibilities of non-traditional employers. In addition, the definition of "employer" under these laws is not uniform.

Some governmental agencies that regulate employment have developed rules that specifically address issues raised by the relationship among PEOs, clients and worksite employees. Such regulations are relatively new and, therefore,

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the interpretation and application of these regulations by administrative agencies and Federal and state courts are limited or non-existent. The development of additional regulations and interpretation of existing regulations can be expected to evolve over time. In addition, from time to time, states have considered, and may in the future consider, imposing certain taxes on gross revenues or service fees of the Company and its competitors.

The Company believes that its operations are currently in compliance in all material respects with applicable Federal and state statutes and regulations.

### Employee Benefit Plans

The Company currently offers a 401(k) retirement plan, designed to be "multiple employer" plans under the Internal Revenue Code of 1986, as amended (the "Code") Section 413(c) by way of recent acquisitions. The plan design enables owners of clients and highly compensated worksite employees, as well as highly compensated internal employees of the Company, to participate. Employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act ("ERISA").

In order to qualify for favorable tax treatment under the Code, the plans must

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be established and maintained by an employer for the exclusive benefit of its employees. Generally, an entity is an "employer" of certain workers for federal employment tax purposes if an employment relationship exists between the entity and the workers under the common law test of employment. In addition, the officers of a corporation are deemed to be employees of that corporation for federal employment tax purposes. The common law test of employment, as applied by the Internal Revenue Service ("IRS") involves an examination of many factors to ascertain whether an employment relationship exists between a worker and a purported employer. Such a test is generally applied to determine whether an individual is an independent contractor or an employee for federal employment tax purposes and not to determine whether each of two or more companies is a "co-employer." Substantial weight is typically given to the question of whether the purported employer has the right to direct and control the details of an individual's work. The courts have provided that the common law employer test applied to determine the existence of an employer-employee relationship for federal employment tax purposes can be different than the common law test applied to determine employer status for other federal tax purposes. In addition, control and supervision have been held to be less important factors when determining employer status for ERISA purposes.

Employee pension and welfare benefit plans are also governed by ERISA. ERISA defines "employer" as "any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan." ERISA defines the term "employee" as "any individual employed by an employer." The courts have held that the common law test of employment must be applied to determine whether an individual is an employee or an independent contractor under ERISA. However, in applying that test, control and supervision are less important for ERISA purposes when determining whether an employer has assumed responsibility for an individual's benefits status. A definitive judicial interpretation of "employer" in the context of a PEO or employee leasing arrangement has not been established.

### Federal Employment Taxes

As an employer, the Company assumes responsibility and liability for the payment of Federal and state employment taxes with respect to wages and salaries paid to worksite employees. There are essentially three types of Federal employment tax obligations: (i) withholding of income tax governed by Code Section 3401, et seq.; (ii) obligations under the Federal Income Contributions Act ("FICA"), governed by Code Section 3101, et seq.; and (iii) obligations under the Federal Unemployment Tax Act ("FUTA"), governed by Code Section 3101, et seq. Under these Code sections, employers have the obligation to withhold and remit the employer portion and, where applicable, the employee portion of these taxes.

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Among other employment tax issues related to whether PEOs are employers of worksite employees are issues under the Code provisions applicable to Federal employment taxes. The issue arises as to whether the Company is responsible for payment of employment taxes on wages and salaries paid to such worksite employees. Code Section 3401(d)(1), which applies to Federal income tax withholding requirements, contains an exception to the general common law test applied to determine whether an entity is an "employer" for purposes of Federal income tax withholding. The courts have extended this common law employer exception to apply for both FICA and FUTA tax purposes. Code Section 3401(d)(1) states that if the person for whom services are rendered does not have control of the payment of wages, the "employer" for this purpose is the person having control of the payment of wages. The Treasury Regulations issued under Code Section 3401(d)(1) state that a third party can be deemed to be the employer of workers under this Section for income tax withholding purposes where the person for whom services are rendered does not have legal control of the payment of wages. Although several courts have examined Code section 3401(d)(1) with regard

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to PEOs its ultimate scope has not been delineated. Moreover, the IRS has to date relied extensively on the common law test of employment in determining liability for failure to comply with Federal income tax withholding requirements.

Accordingly, while the Company believes it has assumed the withholding obligations for worksite employees, should the Company fail to meet these obligations, the client may be held jointly and severally liable.

### State Regulation

While many states do not explicitly regulate PEOs, twenty-six states, including several states where the Company has operations (Texas, Maine, Pennsylvania and West Virginia) have passed laws that have licensing, registration or other compliance requirements for PEOs. Several additional states are considering such regulation. Regulations vary from state to state but generally provide for monitoring the fiscal responsibility of PEOs. The Company holds licenses, is registered or otherwise compliant in the states in which it currently has operations. Whether or not a state has licensing, registration or other compliance requirements, the Company faces a number of other state and local regulations that could impact its operations.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"), the Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of the Company herein, in other filings made by the Company with the Securities and Exchange Commission, in press releases or other writings, or orally, whether in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will result," "are expected to," "anticipated," "plans," "intends," "will continue," "estimated," and "projection") are not historical facts and may be forward-looking and, accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. Such known and unknown risks, uncertainties and other factors include, but are not limited to, the following:

- i) volatility of costs of workers' compensation insurance coverage and excess premium generated from the workers' compensation component of the Company's service offering under the Company's loss sensitive workers' compensation programs;
  - ii) volatility of state unemployment taxes;
  - iii) the uncertainties of the collateralization required by, as well as the availability and/or renewal of, the Company's medical benefit plans, general insurance and workers' compensation insurance programs for the worksite employees;
  - iv) uncertainties as to the amount the company will pay to subsidize the costs of medical benefit plans;
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- v) possible adverse application of certain federal and state laws and the possible enactment of unfavorable laws or regulations;
  - vi) litigation and other claims against the Company and its clients, including the impact of such claims on the cost, availability and retention of the Company's insurance coverage programs;
  - vii) impact of competition from existing and new businesses offering human

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- viii) resources outsourcing services;
- viii) risks associated with expansion into additional markets where the Company does not have a presence or significant market penetration;
- ix) risks associated with the Company's dependence on key vendors and the ability to obtain or renew benefit contracts and general insurance policies at rates and with retention amounts acceptable to the Company;
- x) an unfavorable determination by the Internal Revenue Service or Department of Labor regarding the status of the Company as an "employer";
- xi) the possibility of client attrition due to price competition or the Company's decision to increase the price of its services, including medical benefits;
- xii) risks associated with geographic market concentration; xiii) the financial condition of clients;
- xiv) the effect of economic conditions in the United States generally on the Company's business;
- xv) the failure to properly manage growth and successfully integrate acquired companies and operations;
- xvi) risks associated with providing new service offerings to clients;
- xvii) the ability to secure outside financing at rates acceptable to the Company;
- xviii) risks associated with third party claims related to the acts, errors or omissions of the worksite employees; and
- xix) other factors which are described in further detail in this Annual Report on Form 10-KSB and in other filings by the Company with the Securities and Exchange Commission.

The Company cautions that the factors described above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors. Further, management cannot assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### 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.

In March 2006, the Company completed the purchase the stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchases was April 1, 2006 and March 7, 2006 respectively. The Company issues 500,000 share of Series "C" Convertible Preferred shares to the sole stockholder for United Personnel Services, Inc. and World Wide Personnel Services 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 1987. 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.

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### Employees

As of April 11, 2006 Pacel Corp. employed 13 persons on a full time basis. Pacel Corp. supplements fulltime employees with subcontractors and part-time individuals, consistent with workload requirements. The Company's continued success depends heavily upon its ability to retain highly qualified and competent personnel.

### Compliance with Environmental Laws

Company operations do not pollute nor involve discharge of material into the environment. As a result, no expenditure is budgeted or required for environment protection or restoration. Pacel is concerned about protecting the environment and participates in recycling programs.

### ITEM 2. DESCRIPTION OF PROPERTY

In February 2005, the Company relocated its executive offices to 7621 Little Ave, Suite 101, Charlotte, North Carolina, 28226. The Company has a full service lease until July 31, 2010. The Company's telephone number is (704) 643-0676 and its facsimile number is (704) 643-0678. The Company is also a party to leases for four "key-man" office spaces located in Coraopolis, Pennsylvania, Winchester, VA, Auburn, ME, and Irving, Texas.

### ITEM 3. 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. 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.

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.

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.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the period covered by this report.

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### PART II

#### ITEM 5. MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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The common stock of the Company is traded on over-the-counter Electronic Bulletin Board under the symbol "PCCE." On December 31, 2005 there were 210 holders of record of our common stock. As many such shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders. The following tables set forth the high and low sales price per share of our common stock, for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

The "high" and "low" bid quotations for the Company's Common Stock for each quarterly period for the fiscal years ended December 31, 2004 and December 31, 2005 were as follows:

Calendar Quarter	High Bid Price	Low Bid Price
2004		
First	0.4800	0.03100
Second	0.0380	0.00200
Third	0.0240	0.00020
Fourth	0.0050	0.00020
2005		
First	0.0200	0.00010
Second	0.3500	0.00010
Third	0.2400	0.00010
Fourth	0.0080	0.00010

The previous table takes into account all reverse splits occurring in fiscal years ending December 31, 2004 and December 31, 2005.

The Company has paid no cash dividends since its inception. The Company currently plans to retain any future earnings for use in its business and does not intend to pay cash dividends in the foreseeable future. Holders of the

Common stock are entitled to share ratably in dividends when and as declared by the Board of Directors out of funds legally available therefore.

#### Recent Sales of Unregistered Securities

In the fiscal year ended December 31, 2005, the Company utilized its \$10,000,000 equity line of credit from Compass Capital Inc., Kentan Ltd, and Reef Holding Ltd. Borrowing from this equity line allows the repayment by issuing shares of the Company's stock at a discount rate of up to 50% off the closing bid stock price. The equity line is being used to fund acquisitions and shortfalls in working capital. During the year ended December 31, 2005, the Company drew down \$1,645,000 and issued 18,551,973,987 unrestricted shares of the Company's no par common stock, before adjusting such shares to reflect the effects of any stock splits occurring subsequent to issuance. 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, by a state court in Florida who specifically determined, prior to declaring that the transactions were exempt under Section 3(a)(10), that the transactions were fair to the interested parties.

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From January 1, 2006 until March 31, 2006, in connection the exercise of conversion rights by the holders of certain of the registrant's convertible debentures ("Debentures"), the registrant issued an aggregate of 10,770,539,904 shares of its 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 thousand reverse split on January 27, 2006, such shares were be restated as 9,970,540,904 shares.

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The Debentures provided that the principal amount and accrued interest were convertible, at the option of the holders of the Debentures, into the registrant's common stock at a price per share equal to 30% to 40%, depending on the terms of a specific Debenture, of the closing bid price of the registrant's common stock as quoted on the OTC Bulletin Board on the immediately preceding trading day prior to the notice of conversion.

The common stock was 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, by a state courts in Nevada, Florida and Illinois, who determined, prior to declaring that the transactions were exempt under Section 3(a)(10), that the transactions were fair to the interested parties.

As of the date of this report, there 9,970,540,904 shares of the registrant's common stock issued and outstanding.

### Option Grants

There are no option grants outstanding.

### Issuances of Stock for Services or in Satisfaction of Obligations

There were no issuances of stock for services or in satisfaction of obligations.

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this annual report. Historical results are not necessarily indicative of trends in operating results for any future period.

### Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenue for the year ended December 31, 2005 was \$2,240,843 compared to revenue of \$3,400,271 for the year ended December 31, 2004. The difference is attributed to a decision of the Company to sell under performing and unprofitable contracts. The Company generates it revenue from services relating to work site employees. During 2005, the Company intentionally decreased the number of work site employees (WSE) it provided PEO services to. This decrease resulted in a higher Gross profit in 2005. For the year ending December 31, 2005, the Gross profit was \$551,502 compared to \$519,195 for the year ending December 31, 2004. The Company has been heavily marketing its services and Human Resources Information Systems to national chains, white-collar, and light industrial clients. The Company anticipates higher gross profit and additional revenue from services it provides to its clients.

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:

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- o the payroll cost of our worksite employees; and
- o 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.

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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's 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:

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

Payroll taxes consist of the employer's portion of Social Security and Medicare taxes under FICA, federal unemployment taxes, state unemployment taxes and workers' compensation premiums. 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.

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 year ended December 31, 2005 and December 31, 2004.

	Year ended December 31, 2005	Year ended December 31, 2004
	-----	-----
Reconciliation of billings to revenue recognized:		
Billings to clients	\$ 17,047,529	\$ 26,384,02
Less - Gross wages billed to clients	(14,778,592)	(22,386,50
	-----	-----
Revenue from PEO services	\$ 2,268,937	\$ 3,997,52
Adjustment for Discontinued operations	(28,094)	(597,25
Other miscellaneous revenue	-0-	-
	-----	-----
Total revenue as reported	\$ 2,240,843	\$ 3,400,27
	=====	=====



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Employer portion of Social Security And Medicare taxes	\$	986,668	\$	1,862,84
State and Federal Unemployment taxes		247,957		561,20
Workers' Compensation Premiums		424,429		867,78
Adjustment for discontinued operations		(22,330)		(469,02
Other Misc. Expense		52,617		58,27
		-----		-----
Total Cost of Sales		1,689,341		2,881,07
		-----		-----
Gross Profit	\$	551,502	\$	519,19
		=====		=====

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Cost of services for the year ended December 31, 2005 decreased approximately \$1,192,000 to \$1,689,343 compared to cost of services of \$2,881,076 for the year ended December 31, 2004 and is related directly to the delivery of services to its PEO clients. This decrease is the result of eliminating under performing and unprofitable contracts in May 2005.

General & administrative expenses, including salaries and wages, increased to \$2,523,325 for the year ended December 31, 2005, compared to \$2,436,201 in the corresponding period of 2004. Integration expenses associated with the Rossar acquisition contributed to higher expenses through May 2005. A company wide reorganization in May 2005 resulted in a significant reduction in General and Administrative expenses in the remaining 7 months of 2005.

Sales and Marketing expenses increased to \$470,090 for the year ended December 31, 2005, compared to \$421,068 in the corresponding period of 2004. During 2004 the Company redesigned its marketing material and Web site as well as engaged Lincoln Consulting Group to revamp the Company's sales and marketing. Lincoln concluded its contract during the second quarter of 2005. During the third and fourth quarters of 2005 the Company concentrated sales efforts on target markets identified in the sales and marketing studies. The Company was designated a preferred provider in a large state association and has begun actively marketing to its members. Revenue is expected to be generated from this activity during 2006.

Depreciation expenses increased to \$62,595 for the year ended December 31, 2005 compared to \$53,734 for the corresponding period of 2004. Such increase is related to the Company's acquisition of its Human Resource Information System and other technology equipment used for its operations.

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 \$373,287 for the year ended December 31, 2005 compared to \$402,564 for the same period of 2004.

Finance expense for the year ended December 31, 2005 decreased approximately \$1,312,000 to \$619,286 compared to finance expense of \$1,930,761 for the year ended December 31, 2004. The decrease was the result of reduced funding requirements for administrative and operational needs. The Company recorded embedded 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

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Cash and cash equivalents at December 31, 2005 increased to \$251,595 from \$117,052 at December 31, 2004. Net cash used for operating activities was \$2,878,597 during the year ended December 31, 2005 compared to \$4,150,530 in the corresponding period of 2004. The cash used in operating activities is attributable to the net loss of \$4,410,043 decreases in accrued worksite employee costs, offset by a decrease in billed and unbilled accounts receivable, insurance deposits, and prepaid expenses, payroll related liabilities and accrued employee costs, an increase in account payable and accrued expense.

Net cash provided by investing activities for the year ended December 31, 2005 was \$66,379. The cash provided from investing activities is attributable to redemption of restricted cash used to secure Letters of Credit for PEO licenses and tenant build out, offset by the purchase of computer equipment and loss on the sale of contracts.

Net cash provided by financing activities in the year ended December 31, 2005 was \$1,610,675 compared to \$4,602,402 in the corresponding period ended December 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. We have decreased our borrowing against our credit lines.

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In May 2005, The Resourcing Solutions Group, Inc. sold 16 client administrative service contracts to Allegro, Inc. in Columbia, South Carolina. The Company sold all of its North Carolina, South Carolina and Florida service contracts. The Company could no longer service these contracts and make a profit. The company sold these contracts for \$59,358 according to the terms of the contract and received \$16,392. The Company has a receivable of \$66,008 which includes the remaining payment on the sale and reimbursed insurance costs. The Company wrote off \$711,009 of goodwill and recorded a loss on the sale of \$651,651.

In connection with the sale of these contract the Company recognized a loss from discontinued operations of \$31,707 and \$373,631 at December 31, 2005 and 2004 respectively.

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 a \$10,000,000.00 line of credit with T&B Associates, Inc. which was transferred to the Escrow Corporation in May 2005. 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 year ended December 31, 2005, the Company drew down \$1,645,000 and converted \$2,710,673 of old and new convertible debentures in to 4,430,223 unrestricted shares of the Company's no par common stock, after adjusting for all stock splits occurring subsequent to issuance. The balance remaining on these equity lines of credit at March 31, 2006 was \$949,102. 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 entered into a five year employment contract with Marcia Sartori. Compensation includes an annual base salary of \$85,000 and an incentive bonus plan based on the EBITDA (earnings before interest, tax, depreciation and amortization). The agreement also includes severance payments upon termination of employment. Ms. Sartori will hold the title of Vice President of Operations.

In July 2005 the Company renegotiated David E. Calkins' September 2004, employment agreement. The new employment agreement is for five years, has an annual salary of \$138,012 and requires the company to continue to fund the Variable Flexible Premium Universal Life Policy and to pay legal expenses for

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actions which occurred while Mr. Calkins was an officer of the Company. Mr. Calkins is no longer an Officer or Director of the Company.

In July 2005, the Company entered into a ten year employment contract with F. Kay Calkins. Compensation will include an annual base salary of \$240,000.00, of which \$60,000 is deferred income, an incentive bonus plan based on the EBITDA (earnings before interest, tax, depreciation and amortization). The agreement includes severance payments upon termination of employment. In March 2006, the Company completed the purchase the stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchase was April 1, 2006 and March 7, 2006 respectively. The Company issued 500,000 shares of Series "C" Convertible Preferred shares to the sole stockholder of United Personnel Services, Inc. and World Wide Personnel Services of Maine, Inc. The Series "C" Preferred Stock, in the aggregate, shall be convertible, at the option of the holder, into such number of shares of Common Stock as shall be equal to \$500,000 based on the closing bid price of the Common Stock as quoted on the OTC Bulletin Board on the date of conversion. No Conversion can occur for a period of twelve months from the date of issuance of the Series "C" stock. 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 1987. 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.

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The Company's cash requirements for funding its administrative and operating needs continue to greatly exceed its cash flow 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. The Company has 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 was fully operational at January 1, 2005. As part of its efforts to reduce the need for equity funding, the Company has identified new revenue sources in the forth quarter of 2005. The Company has developed new relationships with benefit providers which reduce the Company's administrative burden while sharing in revenue generated from the sale of these products.

A strategic analysis of the overall Human Resource Outsourcing market occurred in 2004 with the goal of developing a comprehensive market study that focused the Company on the areas in which the Company could achieve success in penetrating. As a result of this study, the Company identified a major segment of the overall business community that had unique human resource and employer liability risks. At the request of a national trade association within the business segment the Company was asked to develop a plan to address three major areas of concern - workers' compensation insurance, employee retention and employee benefits. The Company entered into a Memorandum of Understanding with the trade association in February 2005 that recognized the Company as the sponsored organization to which association members should engage to address the areas of concern. As a result of the emphasis placed on the major market segment identified in the 2004 comprehensive market study, the Company was selected in November 2005 as a preferred provider for a large state trade association. The Company created a comprehensive program to address the issues and expanded the program to the much broader economic sector. The Company believes revenue will

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be generated from this program during late second quarter 2006. The Company will generate revenue from multiple vertical markets.

The market analysis concluded that separating the Company's overall products into multiple offerings would achieve greater success in penetrating larger and more diverse prospects. The Company implemented the strategy in the 4th quarter of 2004 and achieved significant results during 2005. In May 2005, the Company reorganized and eliminated under performing and unprofitable contracts. Re-engineered sales and marketing programs became functional in the 4th quarter of 2005. These efforts have resulted in an increased in sales.

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 February, June, October 2005 and January 2006, the Company affected a one-for-one thousand reverse stock split restating the number of common shares at December 31, 2004 from 1,773,000,943 to 1. All references to average number of shares outstanding and prices per share have been restated retroactively to reflect the split.

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### 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-KSB 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 7. FINANCIAL STATEMENTS

The Financial Statements are listed at "Index to Consolidated Financial Statements".

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disputes or disagreements of any nature between the Company or its management and its public auditors with respect to any aspect of accounting or financial disclosure.

### ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act, within the ninety days prior

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to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of Company's management, including the Company's President and Chief Executive Officer and the Company's Chief Financial Officer. Based upon that evaluation, the Company's President and Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reporting, 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 Company 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.

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### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

#### Directors, Executive Officers, Promoters and Control Persons

a) Set forth below are the names, age, positions, with the Company and business experiences of the executive officers and directors of the Company.

Name	Age	Position(s) with Company
F. Kay Calkins	47	Chairman of the Board, Secretary, Director
Gary A. Musselman	50	President and Chief Executive Officer, Chief Financial Officer, Director

All directors hold office until the next annual meeting of the Company's shareholders and until their successors have been elected and qualify. Officers serve upon request of the Board of Directors. The officers and directors will devote such time and effort to the business and affairs of the Company as may be necessary to perform their responsibilities as executive officers and/or directors of the Company.

#### Business Experience

##### F. Kay Calkins, Chairman, Secretary, Director

F. Kay Calkins currently serves as Chairman, Secretary and Director of the Company. Prior to the fourth quarter of 2003, she served as President of EBStor.com, Inc. ("EBStor"), an Internet and web development company, until that operation ceased activities in the fourth quarter of 2003. In her capacity as President, Ms. Calkins was responsible for oversight of all operations of the Company. Ms. Calkins is experienced in the management of technology companies and utilized that experience in the start-up and growth of EBStor. Prior to her position with EBStor, Ms. Calkins was Vice President and Chief Operating Officer of PACEL Corp., where she oversaw the day-to-day operations of the Company and managed the development and deployment of software systems. Ms. Calkins has over fifteen years of experience in technology-related companies. Before accepting the positions with PACEL Ms. Calkins was President of CMC Services, a marketing and consulting firm based in Virginia. Ms. Calkins resides in Virginia.

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### Family Relationships:

F. Kay Calkins and David E. Calkins are husband and wife.

Gary A. Musselman

Mr. Musselman was elected as President and Chief Executive Officer and Chief Financial Officer of the Company in April 2004. Prior to joining Pacel Corp., Mr. Musselman served as the Chief Financial Officer of Grace Global, LLC, an international media company operating within the United States and three foreign locations. Mr. Musselman was responsible for due diligence for several companies being considered for acquisition as well as overseeing the integration of companies that were acquired. From 2000 to 2002, Mr. Musselman was the managing Partner for Stratford Financial Resources, LLC, a business development consulting firm specializing in commercial finance, human resources and mergers and acquisitions. From 1993 to 2000, Mr. Musselman founded and was the Chief Executive Officer of ECS Financial Management Services, LLC, a financial management company specializing in accounts receivable management. Mr. Musselman resides in North Carolina.

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### Code of Ethics

Effective March 22, 2005, the Board of Directors adopted a Code of Ethics for Senior Financial Officers. The Code of Ethics was adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission there under. A copy of the Code of Ethics will be made available upon request at no charge. Requests should be directed in writing to the Company at 7621 Little Ave. Suite 101, Charlotte, NC 28226.

### ITEM 10. MANAGEMENT REMUNERATION AND TRANSACTIONS

#### Executive Compensation

Name and Post -----	Year ----	Annual Comp Salary -----	Annual Comp Bonus -----	Annual Comp Other -----	LT Comp Rest Stock -----
David E. Calkins,	2003	127,497 [1]	0	120,609 [1],[5]	0
Former Chairman of the Board	2004	240,049 [1]	0	379,370 [1],[5]	0
	2005	225,628 [1]	8,310	328,715 [5],[9]	
F. Kay Calkins	2003	0	0	0	0
Chairman of the Board	2004	0	0	0	0
	2005	113,077 [2]	28,310	1,357 [5]	
Gary A. Musselman,	2003	0	0	0	
President and CEO, CFO	2004	118,255 [3]	15,000	40,999 [6]	0
	2005	174,724 [3]	8,310	41,836 [6]	
Marcia Sartori	2003	0	0	0	
Vice President & COO	2004	0	0	0	
	2005	85,981 [4]	7,770	8,394 [5]	
William R. Bellamy	2003	77,499 [7]	10,840	4,469 [5]	

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Former President and CEO	2004	54,879 [7]	0	2,384 [5]
	2005	0	0	0
Timothy L. Maness Former CFO	2003	77,499 [8]	10,840	4,469 [5]
	2004	54,879 [8]	0	2,384 [5]
	2005	0	0	0

[1] - Mr. Calkins is currently compensated at an annual salary of \$138,000. In addition to his regular salary, Mr. Calkins also received other compensation of \$116,667 (2003) and \$184,408 (2004) in payment of prior years' salaries that had been previously accrued on the books of the Company and not paid.

[2] - Mrs. Calkins became the Chairman of the Board on July 1, 2005 and is currently compensated at an annual salary of \$240,000 of which \$30,000 was deferred in 2005.

[3] - Mr. Musselman became an employee of the Company on April 7, 2004 and is currently compensated at an annual salary of \$168,000.

[4] - Mrs. Sartori became an employee of the Company on January 1, 2005 and is currently compensated at an annual salary of \$85,000.

[5] - Other annual compensation includes payments made on behalf on employees for health, life and dental benefits and a variable flexible premium universal life policy.

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[6] - Other annual compensation includes payments made on behalf on employees for health, life and dental benefits, wages paid to Mr. Musselman's spouse as an employee of the Company, as well as payments made for services performed by a company owned by Mrs. Musselman.

[7] - Mr. Bellamy became an employee of the Company on April 26, 2003 in conjunction with the acquisition of substantially all the assets of Asmara, Inc. On December 22, 2003, Mr. Bellamy was elected as President & CEO of the Company. Mr. Bellamy was terminated in April 2004.

[8] - Mr. Maness became an employee of the Company on April 26, 2003 in conjunction with the acquisition of substantially all assets of Asmara, Inc. On December 22, 2003, Mr. Manes was elected as Chief Financial Officer of the Company. Mr. Maness resigned in April 2004.

[9] - Other compensation includes \$127,066 paid in legal fees on a matter which arose while Mr. Calkins was an Officer and Director of the Company

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the ownership of the Company's Common Stock as of December 31, 2005, with respect to: (i) each person known to the Company to be the beneficial owner of more than five percent of the Company's Common Stock; (ii) all directors; and (iii) directors and executive officers of the Company as a group. To the knowledge of the Company, each shareholder listed below possesses sole voting and investment power with respect to the shares indicated.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
-----	-----	-----	-----
Common Stock	Gary Musselman 7621 Little Ave Suite 101 Charlotte, NC 28226	-15-	less than 1%
Common Stock	David Calkins	21	less than 1%

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7621 Little Ave Suite 101  
Charlotte, NC 28226

Common Stock	Marcia Sartori 7621 Little Ave Suite 101 Charlotte, NC 28226	5	less than 1%
Common Stock	F. Kay Calkins 7621 Little Ave Suite 101 Charlotte, NC 28226	21	less than 1%
----- Common Stock -----	----- All Executive Officers and Directors as a Group ( 4 persons) -----	----- 62 -----	----- less than 1% -----

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In July 2005, the Company renegotiated the September 2004 employment contract with David E. Calkins. The new employment agreement is for five years, has an annual salary of \$138,012 and requires the company to continue to fund the Variable Flexible Premium Universal Life Policy and to pay legal expenses for actions which occurred while Mr. Calkins was an officer of the Company. Mr. Calkins is no longer an Officer or Director of the Company. In July 2005, the Company entered into a ten year employment contract with F. Kay Calkins. Compensation will include an annual base salary of \$240,000 of which \$60,000 is deferred, an incentive bonus plan based on the EBITDA (earnings before interest, tax, depreciation and amortization). The agreement includes severance payments upon termination of employment. December 31, 2005 Mrs. Calkins was given a \$20,000 bonus for reducing the Companies need to rely on equity financing.

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During 2005, the Company paid to Stratford Financial Resources, LLC, a company owned by Catherine Musselman, wife of Gary Musselman \$15,990 for services rendered to the Company. These services were related to maintaining corporate licenses for the Company's PEO and insurance business as well as integrating the sales function with various insurance providers.

In December 2005, the Company entered into a contract with Stratford Financial Resources, LLC to provide sales services to the Company. Ms. Musselman is a licensed insurance agent in all states where the Company operates. Ms. Musselman, through her company, will be selling human resource services of the Company and selling insurance benefits to clients. Ms. Musselman's company will be compensated on commission only basis for the sale of the Company's services.

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 Office and Director of the Company. The employment contract between Mr. Calkins and the Company requires the Company to pay such legal bills. Through December 31, 2005 the Company has paid or incurred \$127,066 in fees to Hinshaw and Culbert.

### ITEM 13. EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
	* Plan of Reorganization
2.1	* Articles and Agreement of Merger dated January 17, 2005



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	*	Articles of Incorporation and By-Laws
3(i)	*	Articles of Incorporation dated March 13, 2003
3(ii)	*	Certificate of Amendment dated January 18,2005
3(iii)	*	Bylaws
10.1	*	Share Exchange and Plan of Reorganization dated March 7, 2006 regarding the aquisition of United Personnel Services, Inc.
10.2	*	Share Exchange and Plan of Reorganization dated March 23, 2006 regarding the aquisition of Worldwide Personnel Services of Maine, Inc.
21		Subsidiaries
		CERTIFICATIONS
31		Rule 15d-14(a) certification of Gary Musselman
32		Section 1350 certification of Gary Musselman
*		Incorporated herein by reference from filings previously made by the Company

ITEM 14. Principal Accountant Fees and Services:

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2005 and December 31, 2004 for (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statement, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered.

	December 31,	
	2005	2004
	-----	-----
(i) Audit Fees	\$ 81,000	\$ 87,600
(ii) Audit Related Fees	-0-	-0-
(iii) Tax Fees	2,500	6,500
(iv) All Other Fees	-0-	-0-
	-----	-----

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Total Fees	\$	83,500	\$	94,100
		=====		=====

AUDIT FEES. Consist of Fees billed for professional services rendered for the audit of Pacel Corp's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Peter C. Cosmas Co. CPAs in connection with statutory and regulatory filings or engagements.

AUDIT-RELATED FEES. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Pacel Corp's consolidated financial statements and are not reported under "Audit Fees." There were no Audit-Related services provided in fiscal 2005 or 2004.

TAX FEES. Consists of fees billed for professional services for tax compliance, tax advice, and tax planning.

ALL OTHER FEES. Consists of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2005 or 2004.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of  
Pacel Corp.

We have audited the accompanying consolidated balance sheets of Pacel Corp. and its subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial

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reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacel Corp. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Pacel Corp will continue as a going concern. As discussed in Note(c) to the financial statements, the Company has generated significant losses and requires additional working capital to continue operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are more fully described in Note 1(c). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Peter C. Cosmas Co., CPAs

370 Lexington Ave.  
New York, NY 10017  
March 29, 2006

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### PACEL CORP. AND SUBSIDIARIES Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 251,595	\$ 117,052
Client deposits and advance payments	-0-	826,598
Accounts receivable	15,384	230,469
Accounts receivable-Unbilled	169,749	310,845
Prepaid expenses	69,372	110,408
Workers compensation insurance deposits	26,240	139,089
Restricted Cash	179,855	913,009
	-----	-----
Total current assets	712,195	2,647,470
	-----	-----

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Property and equipment, net of accumulated depreciation of \$133,031 and \$70,436 respectively	125,380	147,831
	-----	-----
Other assets:		
Other receivables	65,127	-0-
Retirement Plan - Director	162,230	154,772
Goodwill 368,200	1,075,432	
Security deposits	11,152	15,182
	-----	-----
Total other assets	606,709	1,245,386
	-----	-----
Total assets	\$ 1,444,284	\$ 4,040,687
	=====	=====

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES  
Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
	-----	-----
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 336,497	\$ 242,210
Payroll and payroll related liabilities	1,955,231	2,511,224
Accrued work site employee payroll expenses	163,626	300,391
Accrued expenses	1,857,454	1,330,456
Assumed liabilities	493,133	493,133
Client deposits and advance payments	-0-	826,598
Short term payables	1,081,359	2,158,251
Current maturities of long term note	27,127	-0-
	-----	-----
Total current liabilities	5,914,427	7,862,263

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Long-term liabilities:		
Notes payable - Non Current portion	218,926	-0-
Deferred Compensation-Director Payable	335,233	154,772
	-----	-----
Total long-term liabilities	554,159	154,772
	-----	-----
Total liabilities	6,468,586	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, 4,430,273 and 1 shares issued respectively	4,430	-0-
Additional paid-in capital	25,760,994	22,403,335
Cumulative currency translation adjustment	(18,720)	(18,720)
Accumulated deficit	(30,772,006)	(26,361,963)
	-----	-----
Total stockholders' (deficit)	(5,024,302)	(3,976,348)
	-----	-----
Total liabilities and stockholders' deficit	\$ 1,444,284	\$ 4,040,687
	=====	=====

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES  
Consolidated Statements of Operations

	Year Decem
	2005
	-----
Revenue	\$ 2,240,843
Cost of sales	1,689,341
	-----
Gross profit	551,502
Operating costs and expenses:	
General and Administrative	2,523,756
Sales and Marketing	470,090
Depreciation and amortization	62,595
Loss on impairment of goodwill	229,173
	-----
Total operating expenses	3,285,614
Operating Loss	(2,734,112)

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Other Expenses:		
Interest expense		(373,287)
Financing costs		(619,286)
		-----
Total other expenses		(992,573)
Discontinued operations:		
Loss on discontinued (Sale of Contracts)		(31,707)
Loss on sale of contracts to Allegro, Inc.		(651,651)
		-----
Total Loss on discontinued operations		(683,358)
Net Loss		\$ (4,410,043)
		=====
Loss from Discontinued operations per common and common equivalent share:		
Basic	\$	(1.69)
Diluted	\$	(1.69)
Net loss per common and common equivalent share:		
Basic	\$	(10.87)
Diluted	\$	(10.87)
Weighted average shares outstanding:		
Basic		405,553
Diluted		405,553

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES  
Consolidated Statements of Stockholders' (Deficit)  
For the Two Years Ended December 31, 2004 and 2005

	Preferred Stock	Common Stock	Additional			
	Shares	Amount	Shares	Stock		
			Amount	Amount		
				Additional		
				Paid-in-capital		
				Amount		
				(Deficit)		
Balance, December 31, 2003	1,000,000	\$1,000	1	\$ 0	\$17,385,697	\$ (21,26
	=====	=====	=====	=====	=====	=====
Subscription Receivable					125,000	
Issuance of common stock, in connection with convertible notes payable			0	0	90,000	
Issuance of common stock, in connection with Section 3(a)(10) filings			0	0	2,871,877	
Embedded interest in connection with convertible debt issued under Section 3(a)(10) filings			0	0	1,930,761	

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Net loss							(5,09
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2004	1,000,000	\$1,000	1	\$ 0	\$22,403,335	\$ (26,36	
	=====	=====	=====	=====	=====	=====	=====
Issuance of common stock, in to Senior Managers, Officers and Directors			50	0	27,700		
Issuance of common stock, in connection with Section 3(a)(10) filings			4,430,222	4,430	2,710,673		
Embedded interest in connection with convertible debt issued under Section  3(a)(10) filings			-	-	619,286		
Net loss							\$ (4,41
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 2005	1,000,000	\$1,000	4,430,273	\$ 4,430	\$25,760,994	\$ (30,77	
	=====	=====	=====	=====	=====	=====	=====

(1) - Shares are restated to reflect a one-for-one thousand reverse stock split in February 2005, June 2005, October 2005 and January 2006.

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

		Year ended December 31
		2005
		-----
Cash flows from operating activities:		
Net loss	\$	(4,410,043)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation		62,595
Financing costs (Embedded interest)		619,286
Stock based compensation		27,700
Loss on impairment of Goodwill		229,173
Loss on Sale of contracts		651,651
Accounts receivable		215,085
Accounts receivable-Unbilled		141,096
Other receivables		(22,161)
Insurance deposits		112,849
Prepaid expenses		61,525
Security deposits		5,280
Accounts payable		88,167



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Accrued expenses	526,998
Accrued expenses-Director	-0-
Payroll and payroll related liabilities	(555,993)
Accrued work site employee payroll costs	(136,765)
Assumed liabilities	-0-
Deferred Compensation - Director	173,003
Income taxes payable	-0-
	-----
Net cash (used in) operating activities	(2,210,554)
Cash flows from investing activities:	
Net purchases of property and equipment	(15,124)
Sale of Contracts	16,392
Cash CD-Restricted	733,154
	-----
Net cash provided (used in) investing activities	734,422
Cash flows from financing activities:	
Repayments of notes payable	(25,947)
Issuance of notes payable	-0-
Issuance of convertible notes payable	1,645,000
Receipts of stock subscription receivables	-0-
Repayments from lines of credit	(8,378)
Repayment of capital leases	-0-
	-----
Net cash provided by financing activities	1,610,675
Net increase (decrease) in cash and cash equivalents	134,543
Cash and cash equivalents, beginning of period	117,052
	-----
Cash and cash equivalents, end of period	\$ 251,595
	=====

See accompanying notes to the consolidated financial statements.

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Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 11,798
	=====

See accompanying notes to the consolidated financial statements.

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PACEL CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

1. Summary of Significant Accounting Policies:

- A. Nature of the business. PACEL Corp. (the "Company") was incorporated on May 3, 1994 under the laws of the State of Virginia. Effective January 25, 2005, by written consent of the shareholders holding a majority of the voting power of the Company as disclosed in the Company's Information Statement filed with the Securities and Exchange Commission approved (a) an amendment to the Company's Articles of Incorporation to increase the authorized common stock to 10 billion shares; (b) a change of corporate domicile from Virginia to Nevada; (c) the election of Gary Musselman to the board of directors. In September 2002, the Company announced its intention to enter the Professional Employer Organization (PEO) industry. In December 2002, the Company formed a wholly owned subsidiary, The Resourcing Solutions Group Inc. (TRSG) for the purpose of acquiring and running the PEO companies. On December 10, 2002, the Company issued a one time stock dividend of one share of "TRSG" (an OTC Non- Reporting company symbol - RSGS) for each share of record of Pacel Corp. stock on December 10, 2002. The Company issued 493,511,735 shares of Resourcing Solutions Group no par value common stock representing approximately 25% of the total shares issued. In October 2004, The Resourcing Solutions Group, Inc. effected a one-for one thousand reverse split. After giving effect for the one-for-one thousand reverse

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stock split, the Company now owns 1,506,963 shares. The subsidiary operated at a loss during the years ended December 31, 2005 and 2004. The minority 25% share of the loss for the years ended December 31, 2005 and 2004 were \$151,623 and \$76,080 respectively and is reflected in the statement of operations. See Note 6 Short term borrowing for possible material dilution of the Company's interest in TRSG. The Company has no recourse to collect the receivable from these losses.

- B. 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.
- C. Basis of Financial Statement 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; however, it 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 as well as implement its sales and marketing strategy. 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.
- D. Cash and cash equivalents. Cash equivalents consist of liquid investments, with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximate market value.
- E. Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of 24 to 36 months are used for computer equipment and related software, five years for office equipment, furniture, and

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fixtures. Depreciation and amortization of leasehold improvements is computed using the shorter of the remaining lease term or five years. Maintenance and repairs are charged against income and betterments are capitalized.

- F. Reclassification. Certain prior year amounts have been reclassified to conform to current year's presentation.
- G. 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:
  - o the payroll cost of our worksite employees; and
  - o 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

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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:

- 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.

During 2005, the Company paid \$ 424,429 in Workers' Compensation premiums and paid \$1,234,625 in Payroll taxes (Federal, State and Local). The amount paid in Workers' Compensation premiums and taxes is included in the Cost of Goods Sold.

- H. Advertising Costs. The Company expenses all advertising costs as incurred.
- I. Use of Estimates. The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the Consolidated Financial Statements and accompanying notes. The actual amounts may differ from the estimated amounts.

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- J. Impairment of long-lived Assets. The Company to reviews the recoverability of the carrying amounts of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the asset might not be recoverable. Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of discounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use are based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.
- K. Fair Value Disclosures. The carrying amounts reported in the balance

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sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value because of the immediate or short-term maturity of these financial instruments.

- L. Stock Options In December 2004, the Financial Accounting Standards Board ("FASB") issued the revised SFAS No. 123, Share-Based, share-Based payment (SFAS no. 123R). SFAS No. 123R is a revision of SFAS No. 123 and supersedes APB no. 25. SFAS No. 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date to be estimated using either using an option-pricing model, which is consistent with the terms of the award or a market observed price, if such a price exists. The resulting cost must be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. SFAS 123R must be adopted no later than periods beginning after December 15, 2005. The Company expects the adoption of SFAS 123R will not have a material impact on its net income and earnings per share.

### 2. Acquisitions/Dispositions

On January 1, 2005, The Resourcing Solutions Group, Inc. acquired substantially all the assets of Rossar HR LLC. The acquisition was accounted for as a purchase. The Company assumed certain debts and lease obligations of Rossar HR, LLC and issued a note payable of \$272,000 and executed an employment contract with the former owner of Rossar HR, LLC. Consideration under the agreement consists of compensation amounting to \$85,000 and bonuses based on business unit performance. The balance of the note at December 31, 2005 was \$246,054. The Company recorded \$232,950 in Goodwill in conjunction with this acquisition. During the second quarter of 2005, the Company recorded an impairment of \$131,950 reducing the value of Goodwill to \$101,000.

In May 2005, The Resourcing Solutions Group, Inc. sold 16 client administrative service contracts to Allegro, Inc. in Columbia, South Carolina. The Company sold all of its North Carolina, South Carolina and Florida service contracts. The Company could no longer service these contracts and make a profit. The company sold these contracts for \$59,358 according to the terms of the contact and received \$16,392. The Company has a receivable of \$66,008 which includes the remaining payment on the sale and reimbursed insurance costs. The Company wrote off \$711,009 of goodwill and recorded a loss on the sale of \$651,651.

In connection with the sale of these contracts the Company recognized a loss from discontinued operations of \$31,707 and \$373,631 at December 31, 2005 and 2004 respectively.

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### 3. Accounts Receivable

The Company's accounts receivable is primarily composed of trade receivables and unbilled receivables. The Company's trade receivables, which represent outstanding billings to clients, are reported net of allowance for doubtful accounts of \$0 and \$533 as of December 31, 2005 and 2004, respectively. The Company establishes an allowance for doubtful accounts based on management's assessment of the collectibility of specific accounts and by making a general provision for other potentially uncollectible amounts.

The Company makes an accrual at the end of each accounting period for its obligations associated with the earned but unpaid wages of its

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worksite employees and for the unbilled revenue associated with such wages. These accruals are included in accrued work site employee payroll expenses and Accounts receivable unbilled, however, these amounts are presented net in the Consolidated Statements of Operations. The Company generally requires that clients pay invoices for service fees no later than one day prior to the applicable payroll date. As such, the Company generally does not require collateral. Customer prepayments directly attributable to unbilled accounts receivable have been netted against such receivables as the billings have been earned and the payroll cost has been incurred, thus the Company has the legal right of offset for these amounts. As of December 31, 2005 and 2004, unbilled accounts receivable consisted of the following:

	December 31,	
	2005	2004
Accrued worksite employees payroll cost	\$ 163,626	\$ 300,391
Unbilled revenue	6,123	10,454
Unbilled accounts receivable	\$ 169,749	\$ 310,845

#### 4. Property and Equipment:

Property and equipment consist of the following:

	December 31,	
	2005	2004
Computers and office Equipment	\$ 258,411	\$ 218,267
Less accumulated depreciation	133,031	70,436
Total	\$ 125,380	\$ 147,831

#### 5. Short term Borrowings Consists of:

	December 31,	
	2005	2004
Note payable bank	\$ 15,852	\$ 24,230
Notes Payable-Other	465,000	465,000
Convertible notes payable	600,507	1,669,021
Capital lease	-0-	-0-
Total Short-term borrowings	\$1,081,359	\$2,158,251

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The Company borrowed \$50,000 from the bank in the form of 5 year term note due February 20, 2007 at an interest rate of 8.5%. The balance at December 31, 2005 and 2004 was \$15,852 and \$24,230 respectively.

In January 2002, the Company issued three short term notes payable totaling \$375,000 and are included in Notes Payable Other, the notes bear an interest rate of 9% per annum. At December 31, 2004, the

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Company was in default under the terms of these note agreements. The Company considers these notes as short term borrowings. 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 these notes issued by the Company in March 2001.. The action seeks compensatory damages in the amount of \$312,000, plus interest and attorneys fees in an amount yet unspecified.

In January 2004, the Company issued a \$90,000 short-term note. This note is payable upon demand and is included in notes payable other.

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 a \$10,000,000.00 line of credit with T&B Associates, Inc. which was transferred to the Escrow Corporation in May 2005. 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 year ended December 31, 2005, the Company drew down \$1,645,000 and converted \$2,710,673 of old and new convertible debentures in to 4,430,223 unrestricted shares of the Company's no par common stock, after adjusting for all stock splits occurring subsequent to issuance. The balance remaining on these equity lines of credit at March 31, 2006 was \$949,102. 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.

On November 30, 2004, the Company's subsidiary, The Resourcing Solutions Group, Inc., issued its 8% Convertible Redeemable Debentures due November 30, 2005 in the aggregate principal amount of \$100,000. The debentures were purchased by OHHN Holdings, LLC and Hatov Holdings, LLC. The debentures were issued pursuant to the exemption from registration under the Securities Act of 1933 provided by Regulation D Rule 504. This debenture is included in convertible notes payable. As collateral for the debenture, The Resourcing Solutions Group, Inc. placed 1,000,000,000 shares in escrow. Based on the price of The Resourcing Solutions Group, Inc. stock when the debenture was secured, the collateral was valued at 100 times the amount of the debenture. If the debenture is converted for stock, the Company's percentage of ownership in The Resourcing Solutions Group, Inc. will be substantially reduced. The Company can not determine the dilution since there is an inverse relationship of the number of shares issued to the value of the shares necessary to repay the debenture.

The balance of these convertible notes at December 31, 2005 and 2004 was \$600,507 and \$1,669,021 respectively.

### 6. Assumed Liabilities

As part of the asset purchase agreement of Asmara Inc. in April 2003, the Company assumed certain debts attributed to the President and CEO who was the sole shareholder of Asmara Inc. These debts were previously classified as Notes Payable to Officers. Upon the dismissal of the President and CEO, these debts were reclassified as Assumed Liabilities. The balances at the years ended December 31, 2005 and 2004 was \$493,133.

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### 7. Long Term Liabilities

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### A. Retirement Plan-Director

During the first quarter of 2004, the Company entered into a Variable Flexible Premium Universal Life policy naming David E. Calkins, the Chairman of the Company, as the insured. The Company is the owner of the policy while David E. Calkins and his spouse are the beneficiaries of the policy. The insurance policy carries a face value of \$3,100,000. The account value of the insurance policy can be invested in various investment accounts as directed by the Company. The policy calls for the Company to make monthly payments of \$18,333 for five years. Upon age 70, David E. Calkins will be eligible to withdraw the assets of the policy over a 15 year period. During the twelve months ended December 31, 2005, the Company recorded \$220,000 in General and Administrative expense. The Company has recorded the value of the assets \$162,230 and a liabilities of \$151,772 and \$213,461 totaling \$335,223 as deferred compensation, for the surrender charge on the policy as well as the unpaid premiums.

### 8. Income Taxes

At inception, the Company adopted SFAS No. 109, Accounting for income taxes. Under the provision of SFAS No. 109, the Company elected not to restate prior years due to immateriality.

At this time, the Company does not believe it can reliably predict profitability for the long-term. Accordingly, the deferred tax asset applicable to 2005 and 2004 operation has been reduced in its entirety by the valuation allowance.

As a result of the operating losses for the years ended December 31, 2005 and 1992-2004, the Company has available to offset future taxable income a net operating loss of approximately \$18 Million expiring in 2006-2019.

The components of this provision (credit) for income taxes from continuing operations is as follow:

	2005	2004
	-----	-----
Deferred		
Federal	\$ -	\$ -
Current		
Federal	\$ -	\$ -
State	\$ -	\$ -
	-----	-----
	\$ -	\$ -
	-----	-----

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Difference between the tax provision computed using the statutory federal income tax rate and the effective income tax rate on the operations is as follow:

	2005	2004
	-----	-----
Federal		
Statutory rate	\$(1,288,875)	\$(1,220,331)
Research tax credits	-0-	-0-



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Tax benefit not provided		
Due to valuation allowance	\$ 1,288,875	\$ 1, 220,331
	-----	-----
	\$ -0-	\$ -0-
	=====	=====

Components of the Company's deferred tax assets and liabilities are as follow:

	December 31,	
	2005	2004
	-----	-----
Deferred tax assets:		
Tax benefit related to net operating loss carry forward And research tax credit	\$ 7,154,601	\$ 5,865,
	-----	-----
Total deferred tax assets	\$ 7,154,601	\$ 5,865,
Valuation allowance for Deferred tax assets	\$ 7,154,601	\$ 5,865,
	-----	-----
Net deferred tax assets	\$ -0-	\$
	=====	=====

9. Earning (Loss) Per Share:

In February 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 128. "Earnings Per Share" applicable for financial statements issued for periods ending after December 15, 1997. As required the Company adopted "SFAS" No. 128 for the year ended December 31, 1997 and restated all prior period earnings per share figures. The Company has presented basic earnings per share. Basic earnings per share exclude potential dilution and are calculated by dividing income available to common stockholders by the weighted average number of outstanding common shares. Diluted earnings per share incorporate the potential dilutions from all potentially dilutive securities that would have reduced earnings per share. Since the potential issuance of additional shares would reduce loss per share they are considered anti-dilutive and are excluded from the calculation.

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options. Share and per-common share data for all periods presented reflect the effect of all reverses.

The weighted average number of shares used to compute basic earnings (loss) per share was 405,552,988 and 233,817 at December 31, 2005 and 2004 respectively.

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### 10. Commitments and Contingencies:

#### A. Operating Leases

Future annual minimum lease payments under all non-cancelable operating leases as of December 31, 2005 are as follows:

2006	\$ 146,473
2007	141,691
2008	152,902
2009	122,583
2010 & thereafter	116,222
	-----
Total Minimum Lease Payments	\$ 679,871
	=====

Rent expense for December 31, 2005 and 2004 was \$129,228 and \$117,738 respectively.

#### B. Legal

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.

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

### 11. Goodwill and other Intangible Assets

The Company recorded an impairment of \$229,173 related to goodwill in

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the Company's PEO

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business. \$131,950 was related to the Rossar acquisition in 2005 and \$97,223 is related to the 2003 Benecorp Business acquisition. The fair value of the PEO business was determined using discounted cash flows and market value of clients if sold. Current Goodwill is \$368,200 of which \$267,200 is attributable to the purchase of Benecorp Business Services, Inc. and \$101,000 is attributable to the purchase of Rossar, HR, LLC.

### 12. Stockholders' Equity:

#### A. Preferred Stock:

The Company's Amended Certificate of Incorporation authorizes 5,000,000 shares of no par, non-liquidating value preferred stock, of which 1,000,000 shares have been designated the 1997 class A Convertible Preferred Stock. The number of shares of the 1997 Class A shall be limited to 1,000,000. The Board of Directors of the Company has the authority to establish and designate any shares of stock in series or classes and to fix any variations in the designations, relative rights, preferences and limitations between series as it deems appropriate, by a majority vote.

The shares of the 1997 Class A Convertible Preferred Stock shall have no liquidation value, and shall be entitled to receive, out of any funds of the Company at the time legally available for the declaration of dividends, a per share participating dividend equivalent to that declared and or paid with respect to a share of Common Stock.

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 preferred stock par value changed from no par value to .001 par value. As a result of this change, preferred stock for the years ended December 31, 2005 and 2004 was \$11,320 to \$1,000.

#### B. Common Stock:

The authorized common stock of the Company consists of 10,000,000,000 shares of no par value common stock at December 31, 2005 and 2,000,000,000 at December 31, 2004.

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 years ended December 31, 2005 and 2004 were restated from 4,430,272,825 to 4,430,273 and 1,773,000,943 to 1 and from respectively.

In February 2005, June 2005 and October 2005, the Company affected a one-for-one thousand reverse stock split, and in January 2006, the Company affected a one-for-one thousand reverse stock split restating the number of common shares at December 31, 2004 from 167 to 1.

13. Related Party Transactions:

A. Employment Agreements

In July 2005 the Company renegotiated David E. Calkins September 2004, employment contract. The new employment agreement is for five years, has an annual salary of \$138,012 and requires the company to continue to fund the Variable Flexible Premium Universal Life Policy and to pay legal expenses for actions which occurred while Mr. Calkins was an officer of the Company. Mr. Calkins is no longer an Officer or Director of the Company. 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 Office and Director of the Company. The employment contract between Mr. Calkins and the Company requires the Company to pay such legal bills. Through December 31, 2005 the Company has paid or incurred \$127,066 in fees to Hinshaw and Culbert.

In July 2005, the Company entered into a ten year employment contract with F. Kay Calkins. Compensation will include an annual base salary of \$240,000.00 of which \$60,000 is deferred, an incentive bonus plan based on the EBITDA (earnings before interest, tax, depreciation and amortization). The agreement includes severance payments upon termination of employment.

In January 2005, the Company entered into a five year employment contract with Marcia Sartori. Compensation will include an annual base salary of \$85,000 and an incentive bonus plan based on the EBITDA (earnings before interest, tax, depreciation and amortization). The agreement also includes severance payments upon termination of employment. Ms. Sartori will hold the title of Vice President of Operations. In December 2005 the Board of Directors voted a discretionary bonus of \$20,000 and \$5,000 to the Chairman of the Board and the Chief Operating Officer respectively for improving the financial condition of the company. During 2005, the Company paid to Stratford Financial Resources, LLC, a company owned by Catherine Musselman, wife of Gary Musselman \$15,990 for services rendered to the Company. These services were related to maintaining corporate licenses for the Company's PEO and insurance business as well as integrating the sales function with various insurance providers.

In December 2005, the Company entered into a contract with Stratford Financial Resources, LLC to provide sales services to the Company. Ms. Musselman is a licensed insurance agent in all states where the Company operates. Ms. Musselman, through her company, will be selling human resource services of the Company and selling insurance benefits to clients. Ms. Musselman's company will be compensated on commission only basis for the sale of the Company's services.

B. Stock Base Compensation

The Company issued stock to certain officers, key employees, and non-employee directors which consisted of Series "B" Preferred Stock (Series "B" Stock). The maximum number of shares of the Company's Series "B" Stock available for issuance was 1 million shares with a par value of \$0.001. Each share of the Series "B" Stock is convertible to 50 shares of Common Stock without the payment of any additional consideration. Shares issued are compensation to the recipients.

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Effective June 30, the Company authorized and issued 1,000,000 shares of Series "B" Preferred Stock to officers and directors of the Company.

The Company determined compensation costs based on the fair value at the grant date for its stock. The value of each share price was determined to be .0277 representing \$27,700 in total compensation.

On June 30, the holders of the Series "B" Stock elected to convert all of their shares to 50,000,000 shares of Common Stock. As of December 31, 2005, taking into account for all reverses the number of Common Shares outstanding is 50.

### 14. Comprehensive Income:

At December 31, 2005 and 2004 net income and comprehensive income were the same.

### 15. Client Deposits

The Company had \$0 and \$826,598 in Deferred Revenue at December 31, 2005 and 2004 related to amounts prepaid for 2005 for 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.

### 16. Restricted Cash

During the first quarter of 2005, the Company entered into an lease for new office space. The landlord required the Company to secure its tenant build out exposure with a standby letter of credit. The Company secured this standby letter of credit with an interest bearing CD (certificate of deposit) in the amount of \$100,000. The value of the CD on December 31, 2005 was \$102,612.

During 2004, as part of the renewal process for one of its insurance carriers and two state PEO (Professional Employer Organization) licenses, the Company secured irrevocable letters of credit with interest bearing CD's (certificate of deposits). The value of the CD on December 31, 2004 was \$306,506. During 2005, one state PEO (Professional Employer Organization) license required the Company to maintain an irrevocable letter of credit with interest bearing CD's (certificate of deposits). The value of the CD on December 31, 2005 was \$77,243.

### 17. Subsequent Event

In January 2006, the Company affected a one-for-one thousand reverse stock split restating the number of common shares of the Company at December 31, 2005 from 4,430,273,499 to 4,430,273. All references to average number of shares, shares outstanding and prices per share have been restated retroactively to reflect the split.

On March 7, 2006, the Company authorized the issuance of 500,000 shares of Series "C" Convertible Preferred Stock. Series "C" Convertible may not be converted to Common Stock one year from its issuance date. The stock will convert to \$1.00 of Common Stock based on the closing bid price of Common Stock on the day prior to the conversion to Common Stock.

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In March 2006, the Company completed the purchase the stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchase was April 1, 2006 and March 7, 2006 respectively. The Company issued 500,000 shares of Series "C" Convertible Preferred shares to the sole stockholder of United Personnel Services, Inc. and World Wide Personnel Services of Maine, Inc. The Series "C" Preferred Stock, in the aggregate, shall be convertible, at the option of the holder, into such number of shares of Common Stock as shall be equal to \$500,000 based on the closing bid price of the Common Stock as quoted on the OTC Bulletin Board on the date of conversion. No Conversion can occur for a period of twelve months from the date of issuance of the Series "C" stock. 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 1987. 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.

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SIGNATURES

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

Date: April 13, 2006  
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By: /s/ GARY A. MUSSELMAN  
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Gary A. Musselman, President and Chief Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ F. KAY CALKINS ----- F. Kay Calkins	Director	April 13, 2006 -----
By: /s/ GARY A. MUSSELMAN ----- Gary A. Musselman	President, Chief Executive Officer, Director	April 13, 2006 -----
By: /s/ GARY A. MUSSELMAN ----- Gary A. Musselman	Chief Financial Officer	April 13, 2006 -----