PACEL CORP
Form 10QSB
August 16, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO _______________

Commission File Number: 0-29459

PACEL CORP.

(Exact name of registrant as specified in its charter)

NEVADA	54-1712558
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7621 Little Ave Suite 101 Charlotte, NORTH CAROLINA	28226
(Address of principal executive offices)	(ZIP Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 day:

Yes [X] No [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934)

Yes [ ] No [X]

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE)

Yes [ ] No [X]

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

As of August 15, 2006 there were 1,348,984,946 shares of the Registrant's common stock outstanding.

PACEL CORP. AND SUBSIDIARIES

PACEL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Current assets:		
Cash	$ 251,243	$ 251,595
Accounts receivable	276,968	15,384
Accounts receivable-Unbilled	170,174	169,749
Prepaid expenses	84,665	69,372
Workers compensation insurance deposits	80,614	26,240
Restricted cash	182,568	179,855
Total current assets	1,046,232	712,195
Property and equipment, net of accumulated depreciation of $163,197 and $133,031, respectively	108,971	125,380
Other assets:		
Other receivables	26,285	65,127
Retirement Plan - Director	185,954	162,230
Goodwill	652,872	368,200
Security deposits	11,152	11,152
Total other assets	876,263	606,709
Total assets	$ 2,031,466	$ 1,444,284

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 144,600	$ 336,497
Payroll and payroll related liabilities	2,236,292	1,955,231
Accrued worksite employee payroll expense	163,869	163,626
Accrued expenses	2,017,914	1,857,454
Assumed Liabilities	493,133	493,133
Short term payables	719,414	1,081,359
Current Maturities of long term note	27,127	27,127
Total current liabilities	5,802,349	5,914,427
Long-term liabilities:		
Notes Payable - Non Current portion	207,275	218,926
Deferred Compensation - Director Payable	408,567	335,233
Total long term liabilities	615,842	554,159
Total liabilities	6,418,191	6,468,586
Stockholders' equity (deficit):		
Preferred stock, .001 par value, no liquidation value, 5,000,000 shares authorized, 1,000,000 shares of 1997 Class A convertible preferred stock issued	1,000	1,000
Preferred stock, .001 par value, no liquidation value, 500,000 shares authorized, 500,000 shares of 2006 Class C convertible preferred stock issued	500	-0-
Common stock, .001 par value, 10,000,000,000 shares authorized, 14,884,914 and 4,430 shares issued respectively	14,884	4
Additional paid-in capital	27,909,007	25,765,420
Cumulative currency translation adjustment	(18,720)	(18,720)
Accumulated deficit	(32,293,396)	(30,772,006)
Total stockholders' (deficit)	(4,386,725)	(5,024,302)
Total liabilities and stockholders' deficit	$ 2,031,466	$ 1,444,284

See accompanying notes to the consolidated financial statements.

PACEL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenue	$ 1,988,281	$ 1, 490,511
Cost of services	1,509,604	1,177,739
Gross profit	478,677	312,772
Operating costs and expenses:		
General and administrative	1,177,938	1,500,434
Sales and marketing	15,828	350,138
Depreciation and amortization	30,165	29,920
Impairment of goodwill	197,720	131,950
Total operating expenses	1,421,651	2,012,442
Operating Loss	(942,974)	(1,699,670)
Other expenses:		
Interest expense	(170,920)	(232,708)
Financing costs	(409,508)	(362,143)
Total other expense	(580,428)	(594,851)
Net loss before discontinued operations	(1,523,402)	(2,294,521)
Discontinued operations:		
Loss from discontinued operations of Asmara of Florida and Partners PEO of the Carolinas	-0-	(134,708)
Loss from sale of assets to Allegro, Inc.	-0-	(485,953)
Total loss on discontinued operations	-0-	(620,661)
Net loss	$ (1,523,402)	$ (2,915,182)
Loss from discontinued operations per common and common equivalent share:		
Basic	$ -0-	$ (134,708)
Diluted	$ -0-	$ (134,708)
Loss from sale of assets per common and common equivalent share:		
Basic	$ -0-	$ (485,953)
Diluted	$ -0-	$ (485,953)
Net loss per common and common equivalent share:		
Basic	$ (0.21)	$ (2,915,182)
Diluted	$ (0.21)	$ (2,915,182)
Weighted average shares outstanding:		
Basic	7,325,561	1
Diluted	7,325,561	1

See accompanying notes to the consolidated financial statements.

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

	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flows from operating activities:		
Net loss	$ (1,523,402)	$ (2,915,182)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	30,165	29,920
Embedded interest	409,508	362,143
Other Non Cash Items	-0-	27,700
Loss on discontinued operations	-0-	134,708
Loss on Sale of assets	-0-	485,954
Impairment of goodwill	197,720	131,950
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(146,853)	212,597
Accounts receivable-Unbilled	(425)	(82,345)
Other receivables	38,842	-0-
Client deposits	-0-	760,469
Insurance deposits	(19,173)	46,263
Prepaid expenses	(15,293)	50,400
Security deposits	-0-	(1,926)
Retirement Plan - Director	(23,724)	(16,336)
Increase (decrease) in liabilities:		
Accounts payable	(190,323)	349,805
Accrued expenses	157,931	417,522
Payroll and payroll related liabilities	78,092	(409,932)
Deferred revenue	-0-	(760,469)
Accrued work site employee payroll cost	243	76,038
Client Deposits and advance payments	-0-	30,353
Deferred Compensation Director	73,334	(16,366)
Sales and income taxes payable	-0-	676
Net cash (used in) operating activities	(933,358)	(1,086,058)
Cash flows from investing activities:		
Purchases of property and equipment	(3,756)	(10,630)
Cash received from sale of assets	-0-	18,022
Cash CD-Restricted	(2,713)	684,895
Cash acquired in United Personnel Acquisition	63,174	-0-
Net cash (provided by) investing activities	56,705	692,287
Cash flows from financing activities:		
Repayments of notes payable	(11,651)	(12,685)
Issuance of convertible notes payable	902,100	845,000
Repayments of lines of credit	(14,148)	(5,210)
Net cash provided by financing activities	876,301	827,105
Net increase (decrease) in cash and cash equivalents	(352)	433,334
Cash and cash equivalents, beginning of period	251,595	117,052

Cash and cash equivalents, end of period	$ 251,243	$ 550,386

See accompanying notes to the consolidated financial statements.

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

	Six months ended June 30, 2006	2005
Supplemental disclosure of cash flow information:		
Cash paid during the years for:		
Interest	$ 11,592	$ 6,629
Income taxes	$ -0-	$ -0-

See accompanying notes to the consolidated financial statements.

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

Note 1. Basis of Presentation.

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

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

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

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

Note 2. Principles of consolidation.

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

Note 3. Use of Estimates.

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

Note 4. Revenue Recognition.

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

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

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

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

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

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

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

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

Three Months Ended
June 30,

		2006
Reconciliation of billings to revenue recognized:		
Billings to clients	$	7,898,575
Less - Gross wages billed to clients		(6,334,412)
Revenue from PEO services	$	1,564,163
Total revenue as reported	$	1,564,163
Employer portion of Social Security And Medicare taxes	$	439,230
State and Federal Unemployment taxes		111,956
Workers' Compensation Premiums		539,491
Other Misc. Expense		103,705
Total Cost of Sales		1,194,382
Gross Profit	$	369,781

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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 six months ended June 30, 2006 and June 30, 2005.

		Six Months Ended June 30, 2006
Reconciliation of billings to revenue recognized:		
Billings to clients	$	10,494,207
Less - Gross wages billed to clients		(8,505,926)
Revenue from PEO services	$	1,988,281
Total revenue as reported	$	1,988,281
Employer portion of Social Security And Medicare taxes	$	594,123
State and Federal Unemployment taxes		161,916
Workers' Compensation Premiums		645,962
Other Misc. Expense		107,603
Total Cost of Sales		1,509,604

Gross Profit	$ 478,677

Note 5. Common Stock.

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

Note 6. Acquisitions.

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

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

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

Pacel Corp and Subsidiaries with World Wide/United Personnel

	Six Months Ended June 30, 2006
Revenue	$ 2,834,145
Cost of Services	(2,246,340)

Gross Profit		587,805
Total operating expenses		1,516,011
Net Operating Loss		(928,206)
Other expenses		(580,428)
Net loss before discontinued operations		(1,508,634)
Discontinued operations		-0-
Net Loss	$	(1,508,634)
Net loss from discontinued operations per common and common equivalent share:		
Basic	$	-0-
Diluted	$	-0-
Net loss per common and common equivalent share:		
Basic	$	(.21)
Diluted	$	(.21)
Weighted average shares outstanding:		
Basic		7,325,561
Diluted		7,325,561

Note 7. Contingent Liabilities.

The Securities and Exchange Commission ("SEC") filed an action in Federal District Court asserting various violations of securities laws against the Company and its principal officer. The complaint alleges that Mr. Frank Custable "orchestrated" a "scheme" to illegally obtain stock from various companies, including the Company, through "scam Commission Form S-8 registration statements, forged stock authorization forms and at least one bogus attorney opinion letter arranged by Custable." The complaint alleges that, in connection with this alleged "scheme," the Company and its former CEO, David Calkins violated Section 17(a) of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act. The SEC asks that the Company and Calkins be permanently enjoined from future violations, ordered to pay disgorgement and civil penalties and Calkins be barred from continued service as an officer and director. As part of an ex parte proceeding, the District Court ordered the Company and Calkins to provide an accounting of their assets and the transactions that are the subject of the complaint.

On April 7, 2005, grand jury proceedings in the Northern District of Illinois indicted several individuals but not the Company. Subsequently, the Court stayed the Commission's civil action pending the resolution of the criminal proceedings arising from the actions of the grand jury.

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On or about September 9, 2005, an action was filed against the Company in the Supreme Court of New York, County of New York.. The action alleges that the Company is in default in the payment of amounts owing on certain convertible notes issued by the Company in March 2001and subsequently converted to term notes. The action seeks compensatory damages in the amount of $312,000, plus interest and attorneys fees in an amount yet unspecified. The Company is carrying these notes as part of short term notes payable of $375,000. The Company has recognized the obligation but, due to limited cash flows is unable to pay the outstanding balance.

Note 8. Short-Term Payables consists of:

	June 30, 2006	December 31, 2005
Convertible Notes Payable	$ 245,876	$ 600,507
Bank Line of Credit	8,538	15,852
Other Notes Payable	465,000	465,000
Total Short-Term Payables	$ 719,414	$ 1,081,359

Note 9. Discontinued Operations.

On May 15, 2005, The Resourcing Solutions Group, Inc. a subsidiary of the Company discontinued the operation of Asmara of Florida and Partners PEO of the Carolinas. The Company reported a loss from discontinued operations for the six months ended June 30, 2005 equaled $620,661. The consolidated financial statements have been reclassified, where applicable, to reflect the discontinued operations.

Note 10. Related Party Transactions.

A. Mr. Calkins employment agreement

In May 2005, David Calkins engaged the law firm of Hinshaw and Culbert to defend himself in an action which occurred while Mr. Calkins was an Officer and Director of the Company. The employment contract between Mr. Calkins and the Company requires the Company to pay such legal bills. The Company incurred $82,155 in fees to Hinshaw and Culbert for the six months ending June 30, 2006

Note 11. Recent Accounting Pronouncements.

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

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

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

In 2006, the Company continued its strategy for penetrating the Human Resources Outsourcing ("HRO") industry based on its evaluation of its business model and existing business initiatives completed in 2002. The Company's intention to enter this business sector was announced in September 2002 and was based on an evaluation of potential business markets that provide the potential for success. The Company provides human capital solutions through the provision of PEO services and Administrative Service Organization ("ASO") services to such clients. In 2005, the Company successfully completed the acquisition of an additional PEO organization and continues to evaluate other potential acquisition candidates while also reviewing and implementing opportunities to support organic growth in order to secure a position as an industry leader. In March 2006, the Company completed the acquisition of two additional PEO organizations. The Company sees this initiative in the Human Resources Outsourcing ("HRO") industry as an opportunity to tap into the small business market in the United States and intends to compliment the provision of PEO and ASO services with information technology services, business consulting services and financial services at a future time.

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

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

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

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2005

Revenue for the six months ended June 30, 2006 was $1,988,281 compared to that of $1,490,511 for the six months ended June 30, 2005. The Cost of Service and Gross Profit significantly increased over the same time period in 2005. These results are directly attributable to the three months of ownership of World Wide Personnel Services of Maine, Inc. and the six months of ownership of United Personnel Services, Inc which combined contributed $1,122,041 in total revenue for the six months ending June 30, 2006.

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

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		Six Months Ended June 30, 2006
Reconciliation of billings to revenue recognized:		
Billings to clients	$	10,494,207
Less - Gross wages billed to clients		(8,505,926)
Revenue from PEO services	$	1,988,281
Total revenue as reported	$	1,988,281
Employer portion of Social Security And Medicare taxes	$	594,123
State and Federal Unemployment taxes		161,916
Workers' Compensation Premiums		645,962
Other Misc. Expense		107,603
Total Cost of Sales		1,509,604
Gross Profit	$	478,677

Cost of services for the six months ended June 30, 2006 was $1,509,604 compared to cost of services of $1,177,739 for the six months ended June 30, 2005 and is related directly to the delivery of services to its PEO/ASO clients. The increase over 2005 is directly related to the acquisition of United Personnel Services and World Wide Personnel Services of Maine. For the six months in which United Personnel Services was owned by Pacel and the three months that Pacel owned World Wide Personnel Services of Maine combined they incurred $1,003,869 in cost of services for the six months ended June 30, 2006.

General & administrative expenses, including salaries and wages, was $1,177,938 for the six months ended June 30, 2006, compared to $1,500,434 in the corresponding period of 2005. The decrease was attributed to the restructuring that occurred on May 15, 2005 which included a reduction in internal staff. The decrease was mitigated by a combined increase of $295,505 in expenses with 6 months of ownership of United Personnel Services and three months of ownership of World Wide Personnel Services of Maine

Sales and marketing expense was $15,828 for the six months ended June 30, 2006, compared to $350,138 in the corresponding period of 2005. The decrease was attributed to the company's continued transformation of its sales and marketing function that began in the second quarter of 2005. Many of the expenses incurred were one-time costs or contracts for specific periods of time. Sales and marketing expenses decreased as these costs have been met and the sales and marketing function shifts to a commission based system.

Depreciation and amortization expense was $30,165 for the six months ended June 30, 2006, compared to $29,920 for the corresponding period of 2005. This increase was from the Human Resource Information System and various other office equipment placed in service in the third and forth quarter of 2004

Interest expense is interest paid and accrued on the Convertible Notes, unpaid payroll taxes, notes payable, and bank financing. Interest expense was $170,920 for the six months ended June 30, 2006 compared to $232,708 for the same period of 2005.

Embedded Interests for the six months ended June 30, 2006 was $409,508 compared to $362,143 for the six months ended June 30, 2005. The increased was the result of increase funding. The Company recorded embedded interest in conjunction with the issuance of convertible debentures during the period.

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PACEL CORP. AND SUBSIDIARIES

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

Revenue for the quarter ended June 30, 2006 was 1,564,163 compared to revenue of $663,894 for the quarter ended June 30, 2005. Gross billings to clients and gross wages billed to clients significantly increased due to the acquisition of World Wide Personnel Services of Maine which contributed total revenue of $1,053,318. These results are directly attributable to the acquisition as well as the restructuring of clients and the Company which occurred on May 15, 2005.

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

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

	Quarter Ended June 30, 2006
Reconciliation of billings to revenue recognized:	
Billings to clients	$ 7,898,575

Less - Gross wages billed to clients	(6,334,412)
Revenue from PEO services	$ 1,564,163
Total revenue as reported	$ 1,564,163
Employer portion of Social Security And Medicare taxes	$ 439,230
State and Federal Unemployment taxes	111,956
Workers' Compensation Premiums	539,491
Other Misc. Expense	103,705
Total Cost of Sales	1,194,382
Gross Profit	$ 369,781

Cost of services for the three months ended June 30, 2006 was $1,194,382 compared to cost of services of $537,597 for the three months ended June 30, 2005 and is related directly to the delivery of services to its PEO clients. This increase was directly related to the acquisition of United Personal Services and World Wide Personnel Services of Maine, Inc which amounted to $939,764 for the three months ended June 30, 2006.

General & administrative expenses, including salaries and wages, was $657,080 for the three months ended June 30, 2006, compared to $686,887 in the corresponding period of 2005. The decrease was attributed to the restructuring that occurred on May 15, 2005 which included a reduction in internal staff. The decrease was mitigated by an increase in expenses due to the acquisition of United Personnel Services and World Wide Personnel Services of Maine which totaled $242,039 for the quarter ending June 30 , 2006.

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LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents at June 30, 2006 was $251,243 compared to $251,595 at December 31, 2005. The Company's use of cash from operation was $933,358 and $1,083,303 for the six months ended June 30, 2006 and June 30, 2005, respectively. The net loss of $1,523,402 was offset by $637,393 of non-cash items the increase in accrued expenses, payroll liabilities and deferred compensation off set by the increase in accounts receivable, insurance deposits and prepaid expenses.

Net cash used in investing activities for the six months ended June 30, 2006 was $56,705 compared to the net cash in investing activities of $689,532 for the six months ended June 30, 2005. During the six months ended June 30, 2006, the cash in investment activities was from the purchase of fixed assets and the acquisition of United Personnel Services of Maine and Worldwide of Maine.

Net cash provided by financing activities in the six months ended June 30, 2006 was $876,301 compared to $827,105 in the corresponding period ended June 30, 2005. The cash provided during both periods is primarily related to the Company's execution and utilization of its equity-based lines of credit.

In August 2003, the Company entered into a $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. 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. The Company received $750,000 of additional funding from January 1, 2006 until June 30, 2006 through the issuance of these convertible notes. The balance remaining on this equity line of credit at June 30, 2006 was $449,102.

In March 2003, the Company entered into a $10,000,000 equity line of credit from Equities First, LLC. 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. 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 Illinois 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. Equities First, LLC interest and rights were transferred to Bull Market Trading, LLC, WLSL Investments Inc. and Carl Horsely. The Company received $152,100 of additional funding from January 1, 2006 until June 30, 2006 through the issuance of these convertible notes. The balance remaining on this equity lines of credit at June 30, 2006 was $9,602,325

From January 1, 2006 until June 30, 2006, in connection with the funding of working capital shortfalls, the Company converted $1,249,897 of convertible debentures and issued a total of 4,924,339 shares of its common stock with a par value of $.001.

In March 2006, the Company completed the purchase of all the outstanding shares of stock of World Wide Personnel of Maine, Inc and United Personnel Services, Inc. The effective date of the purchases was April 1, 2006 and January 1, 2006 respectively. The Company will issue 500,000 shares of Series "C" Convertible Preferred shares to the sole stockholder for United Personnel Services, Inc. and World Wide Personnel Services of Maine, Inc. The value of these shares is $500,000. At the present time the Company does not enough shares available to convert the Series "C" preferred stock. $100,000 has been attributed to the purchase of United Personnel Services, Inc and the remaining $400,000 is attributed to World Wide Personnel of Maine, Inc. Both companies are licensed Professional Employer Organizations operating in the state of Maine. United Personnel was formed in 1999 and World Wide Personnel of Maine, Inc was formed in 1997. Total Assets acquired in the Acquisition of United Personnel Services and World Wide Personnel of Maine were $223,106 which included $63,174 in cash and $10,000 in fixed assets which consisted of Office/Computer Equipment. Total Liabilities assumed in the Acquisition were $205,498. Goodwill was valued at $482,392 of which $197,720 was impaired. The fair value was determined using discounted cash flows.

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

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

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

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

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

The Company relies on equity financing to fund its ongoing operations and investing activities. The Company expects to continue its investing activities, including expenditures for acquisitions, sales and marketing initiatives, HRIS (Human Resource Information System), and administrative support. The loss of 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

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

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Use of Estimates- Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in the financial statements and accompanying notes. These estimates form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. US GAAP requires us to make estimates and judgments in several areas, including those related to impairment of goodwill and equity investments, revenue recognition, recoverability of inventory and receivables, the useful lives of long lived assets such as property and equipment, the future realization of deferred income tax benefits and the recording of various accruals. The ultimate outcome and actual results could differ from the estimates and assumptions used.

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

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

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

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

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

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

FORWARD LOOKING STATEMENTS

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

This Form 10-QSB includes forward-looking statements relating to the business of the Company. Forward-looking statements contained herein or in other statements made by the Company are made based on management's expectations and beliefs concerning future events impacting the Company and are subject to uncertainties and factors relating to the Company's operations and business environment, all of which are difficult to predict and many of which are beyond the control of the Company, that could cause actual results of the Company to differ materially from those matters expressed in or implied by forward-looking

statements. The Company believes that the following factors, among others, could affect its future performance and cause actual results of the Company to differ materially from those expressed in or implied by forward-looking statements made by or on behalf of the Company: (a) the effect of technological changes; (b) increases in or unexpected losses; (c) increased competition; (d) fluctuations in the costs to operate the business; (e) uninsurable risks; and (f) general economic conditions.

Item 3. CONTROLS AND PROCEDURES.

As of June 30, 2006, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Principal Executive Officer and the Principal Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2006. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2006.

PART II. OTHER INFORMATION

Item 3. Defaults upon Senior Securities

The Company is in default in the payment of the principle amount and accrued interest on certain convertible debentures issued in March 2001 in the aggregate principle amount of $250,000. The amounts in default exceed 5% of the Company's total assets as of the date of this report. The $250,000 is included in the $375,000 short term notes payable.

Item 6. Exhibits

Exhibit No.	Description	Page
3(i)	Articles of Incorporation	*
3(ii)	Amendments to Articles of Incorporation	*

4.1	Designation of Series "B" Convertible Preferred Stock	*
4.2	Designation of Series "C" Convertible Preferred Stock	*
31.1	Rule 13a-14(a)/15d-14(a) Certification	
32.1	Section 1350 Certification	

* Incorporation by reference from previous reports and filings.

Item 7. Signatures

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

Pacel Corp.

BY: /s/ GARY MUSSELMAN

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

DATED: August 15, 2006