PACEL CORP
Form 8-K/A
December 16, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A
AMENDMENT NO. 1
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 5, 2003
(April 25, 2003)

PACEL CORP.

(Exact Name of Registrant as Specified in its Charter)

Virginia	000-31935	54-171-2558
(State or other jurisdiction of incorporation)	(Commission file number)	(IRS Employer Identification No.)

7900 Sudley Road, Suite 619
Manassas, Virginia 20109

(Address of principal executive offices) (Zip Code)

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

N/A

(Former name or former address, if changes since last report)

Copy of Communications to:

Donald F. Mintmire
Mintmire & Associates
265 Sunrise Avenue, Suite 204
Palm Beach, FL 33480
Phone: (561) 832-5696
Fax: (561) 659-5371

Filed herewith are the financial statements and pro forma financial information required to be filed by Item 7 of Form 8-K in connection with the Company's acquisition of all of the assets of Asmara, Inc. ("Asmara"), including the stock of its wholly-owned subsidiaries and the stock of Woodstock Lumber Sales, Inc., an affiliated company, as reported in the Current Report on Form 8-K, filed with the Commission on June 13, 2003, to which this Amendment No. 1 relates:

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Acquired

(b) Pro Forma Financial Information

(c) Exhibits

Exhibit No.	Description
10.1 *	LEASE AGREEMENT between W. Revel Bellamy, Natalie Bellamy and Asmara, Inc., dated January 1, 2003

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 5, 2003

PACEL CORP.

/s/David E. Calkins

David E. Calkins, President, CEO and Chairman

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Board of Directors and Stockholders
Asmara, Inc. and Affiliates

We have audited the accompanying combined balance sheet of Asmara, Inc. and affiliates as of December 31, 2002 and the related combined statements of operations and accumulated deficit and cash flows for the year then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Asmara, Inc. and affiliates as of December 31, 2002 and results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/Faulkner & Thompson, P.A.
Faulkner & Thompson, P.A.

226 Northpark Drive, Suite 110
Rock Hill, SC 29730

November 18, 2003

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Asmara, Inc. and Affiliates
Combined Balance Sheet
December 31, 2002

ASSETS	
Current Assets:	
Accounts receivable	$ 21,547
Due from related party	408,455
Workers compensation insurance deposit	138,928
	568,930
Property and equipment, net of accumulated depreciation	50,727
Other Assets:	
Goodwill 99,900	
Other assets	7,618
	107,518
Total assets	$ 727,175
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current Liabilities:	
Accounts payable and accrued expenses	$ 114,078
Payroll tax and payroll related liabilities	1,192,732
Deferred client revenue	14,952
Due to related party	431,531
Note payable	52,906
Capital lease obligation	22,846
Total current liabilities	1,829,045
Capital lease obligation, net of current portion	15,351
Stockholders Equity (Deficit):	
Common stock 11,250	
Additional paid-in capital	75,000
Accumulated deficit	(1,203,471)
Total stockholders' deficit	(1,117,221)
Total liabilities and stockholders' equity	$ 727,175

See Notes to Combined Financial Statements.

Asmara, Inc. and Affiliates
Combined Statement of Operations and Accumulated Deficit
For the year ended December 31, 2002

Revenue	$ 4,057,317
Cost of sales	2,870,845
Gross profit	1,186,472
Operating costs and expenses:	
Depreciation and amortization	19,800
Interest expense	17,486
Sales, general and administrative expenses	1,377,006
Total operating costs and expenses	1,414,292
Net loss from operations	(227,820)
Other expense:	
Write off of related party receivable	(597,060)
Net loss	$ (824,880)
Accumulated deficit, beginning of year	(378,591)
Accumulated deficit, end of year	$ (1,203,471)

See Notes to Combined Financial Statements.

Asmara, Inc. and Affiliates
Combined Statement of Cash Flows
For the year ended December 31, 2002

Cash flows from operating activities:	
Net loss $ (824,880)	
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	$ 19,800
Bad debts	597,060
Changes in assets and liabilities:	
Accounts receivable	22,525
Workers compensation deposits	(4,125)
Other assets	(2,639)

Accounts payable	6,426
Payroll taxes and payroll related liabilities	585,471
Deferred revenue	14,952
Due to/from related parties	(229,810)
Net cash provided by operating activities	184,780
Cash flows from investing activities:	
Investment in subsidiaries	(2,500)
Purchase of equipment	(13,196)
Purchase of goodwill	(99,900)
Net cash used in investing activities	(115,596)
Cash flows from financing activities:	
Principal payments on note payable	(61,350)
Principal payments on capital lease obligation	(7,834)
Net cash used in financing activities	(69,184)
Net increase in cash and cash equivalents	-0-
Cash and cash equivalents, beginning of year	-0-
Cash and cash equivalents, end of year	$ -0-
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest	$ 17,486
Non-cash investing and financing activities:	
Purchase of equipment under capital lease obligation	$ 46,031

See Notes to Combined Financial Statements.

Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Asmara, Inc. was incorporated in the State of North Carolina in 1997 and is engaged in business as a professional employer organization (PEO), providing a broad range of human resource functions including payroll and benefits administration, health and workers' compensation insurance, as well as other personnel services to employers in North Carolina and surrounding states.

Woodstock Lumber Sales, Inc. (dba Partners PEO of the Carolinas) was incorporated in the State of Oklahoma in 1983 and is engaged as a professional employer organization, providing a broad range of human resource functions including payroll and benefits administration, health and workers' compensation insurance, as well as other personnel services to employers primarily in South Carolina and Oklahoma.

Able, Inc. primarily provided administrative services to the other affiliated companies in 2002 and it was administratively dissolved in 2002.

Related Components, Inc. was incorporated in the State of North Carolina in October 1993 and was engaged in business as a professional employer organization (PEO) as well. The company was in the process of being dissolved at the end of 2002.

Asmara of Florida I, Inc. (formerly known as The Hood Company of Gainesville and Accredited Solutions I, Inc.) was incorporated in the State of Florida in 1981 and is engaged in the business as a professional employer organization (PEO), providing a broad range of human resources functions to employers in Central Florida.

Asmara of Florida II, Inc. (formerly known as Accredited Solutions II, Inc.), Asmara of Florida III, Inc. (formerly known as Accredited Solutions III, Inc.), and Asmara of Florida IV, Inc. (formerly known as Accredited Solutions IV, Inc.) were incorporated June 2001 in the State of Florida. These companies operate as professional employer organizations providing a broad range of human resource functions to employers in Central Florida.

During December 2002, the outstanding common stock of Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc., and Asmara of Florida IV, Inc. was purchased by Asmara, Inc. See Note 5 for additional details regarding the purchase.

These affiliated companies are reported separately for income tax purposes and combined for financial reporting purposes.

Principles of Combination

The accompanying combined financial statements include the accounts of Asmara, Inc. (including its subsidiaries: Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc., and Asmara of Florida IV, Inc.), as well as Woodstock Lumber Sales, Inc., Able, Inc. and Related Components, Inc. (the "Company"). These entities are related through common ownership and control.

Principles of Consolidation

The combined financial statements include the accounts of Asmara, Inc. and its wholly owned subsidiaries: Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc., and Asmara of Florida IV, Inc. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less as cash equivalents.

Accounts Receivable

The Company considers accounts receivable to be fully collectible, and accordingly, no allowance for doubtful accounts is required. If accounts become uncollectible, this will be charged to operations when the determination is made.

Goodwill

Goodwill represents the excess of cost over fair value of the net assets acquired through acquisitions. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 issued in June 2001, goodwill has not been amortized and the Company evaluates the goodwill on an annual basis for impairment. No impairment was recorded during the year ended December 31, 2002.

Revenue and Expense Recognition

The Company recognizes revenue and expenses using the accrual method of accounting and, as such, reports revenue and expenses in the period in which the revenue and expense are incurred rather than when cash is received and expenses paid.

The gross billings that the Company charges its clients under its Professional Services Agreement include each worksite employee's gross wages, payroll taxes, workers' compensation premiums, a service fee and, to the extent elected by the clients, health and welfare benefit plan costs and other ancillary fees. The Company's service fee, which is computed as a percentage of gross wages, is intended to yield a profit to the Company and to cover the costs of certain employment-related employer taxes and administrative and field services provided by the Company to the client, including payroll administration, record keeping, risk management, human resources, and regulatory compliance consultation. The component of the service fee related to administration varies according to the size of the client, the amount and frequency of payroll payments and the method of delivery of such payments. The component of the service fee related to unemployment insurance is based, in part, on the client's historical claims experience. All charges by the Company are invoiced along with each periodic payroll delivered to the client.

The Company reports revenue from service fees in accordance with Emerging Issues Task Force ("EITF") No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. The Company reports as revenues, on a gross basis, the total amount billed to clients for administrative service fees, payroll-related taxes, retirement plan fees and workers' compensation premium. The Company reports revenue on the gross basis for these fees because the Company is the primary obligor and deemed to be the principal in the transactions under EITF No. 99-19. The Company reports revenues on a net basis for the amounts billed to clients for worksite employee salaries and wages, less amounts paid to worksite employees for these salaries and wages.

Income Taxes

Asmara, Inc. and Able, Inc. have elected to be taxed under the provision of Subchapter S of the Internal Revenue Code. Under these provisions, the Company does not pay corporate income taxes on its taxable income or is not allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholders are liabile for individual income taxes on their respective share of the Company's taxable income or loss on their individual tax returns.

The provision for income taxes includes the effects of transactions reported in the financial statements and includes taxes currently due and deferred taxes for Woodstock Lumber Sales, Inc., Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc. and Asmara of Florida IV, Inc. Deferred income taxes relate to net operating losses. A valuation allowance has been calculated for estimated tax benefits that may not be realized.

Property and Equipment

Property is stated at cost less accumulated depreciation. The cost of additions are capitalized and expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using accelerated and straight-line methods.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at December 31, 2002:

Equipment under capital lease	$ 46,031
Office furniture and equipment	41,806
Computer software	25,000
	112,837
Less accumulated depreciation	62,110
	$ 50,727

Depreciation expense for the year ended December 31, 2002 was $19,800.

NOTE 3 - STOCKHOLDER'S EQUITY

Stockholder's equity of Asmara, Inc., Woodstock Lumber Sales, Inc., and Related Components, Inc. is summarized as follows at December 31, 2002:

Asmara, Inc.	
Common stock - no par value; 250,000 shares authrorized, 75,000 shares issued and outstanding	$ 9,750
Accumulated deficit	(1,218,637)
Total stockholder's equity (deficit)	$ (1,208,887)
Woodstock Lumber Sales, Inc.	
Common stock - $1 par value; 100,000 shares authorized, 500 shares issued and outstanding	$ 500
Additional paid in capital	75,000
Retained earnings	6,976
Total stockholder's equity	$ 82,476
Related Components, Inc.	
Common stock - no par value; 1,000 shares authorized, 100 shares issued and outstanding	$ 1,000
Retained earnings	8,190
Total stockholder's equity	$ 9,190

Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 4 - INCOME TAXES

The provision (benefit) for income taxes by components which are subject to income taxes for the year ended December 31, 2002 consisted of the following:

	Woodstock Lumber Sales, Inc.	Related Components, Inc.	Asmara of Florida I, Inc.	Total
Current	$ -0-	$ -0-	$ -0-	$ -0-
Deferred	-0-	-0-	(1,000)	(1,000)
Less valuation adjustment	-0-	-0-	1,000	1,000
	$ -0-	$ -0-	$ -0-	$ -0-

The component of the deferred tax asset at December 31, 2002 is as follows:

Net operating loss carryforward	$ 1,000
Valuation allowance	(1,000)
	$ -0-

The Company's deferred tax asset related to a net operating loss. A valuation allowance has been established as the Company does not have a history of profitability.

At December 31, 2002, the Company has available unused operating loss carryforwards of approximately $4,000, which may be applied against future taxable income expiring through 2022.

NOTE 5 - PURCHASE OF COMPANIES

During 2002, all of the outstanding common stock of Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc. and Asmara of Florida IV, Inc. was purchased by Asmara, Inc. for $100,000. The purchase method was used to account for the purchase. The purchase price was allocated as follows:

Cash	$ 100
Goodwill	99,900
	$ 100,000

Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. To mitigate risk associated with cash balances, the Company places its cash in high credit quality financial institutions. At certain times, the Company has cash balances in excess of federally insured limits.

NOTE 7 - RETIREMENT PLAN

The Company maintains a multiple-employer 401(k) Profit Sharing Plan open to enrollment of employees based on client-elected participation and to all eligible internal employees who have been employed by the Company for three months and meet certain other requirements. The plan is a multi-employer plan that became effective on April 1, 2000. Each of the Company's clients that have adopted the plan have the ability to adjust the plan participation guidelines to meet the client's specific needs as allowed by the governing plan document.

Generally, employees can defer a portion of their salary into the Plan, not to exceed $11,000 for 2002. The Company may make a matching contribution up to 50% of the employee's elective deferral (up to 6%) for each plan year. The Company made a matching contribution of approximately $11,000 for the year ended December 31, 2002.

NOTE 8 - NOTE PAYABLE

The note payable at December 31, 2002 is as follows:

Unsecured note payable to individual due in monthly payments of $5,694 including interest at 8% through October 2003	$	52,906
Less current portion		(52,906)
	$	-0-

Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 9 - CAPITAL LEASE OBLIGATION

The Company leases certain equipment under a capital lease obligation. The lease meets the criteria of capital leases and has been recorded as such. Included in the property and equipment account is the cost of $46,031 and accumulated depreciation of $11,508.

Future minimum lease payments under the capital lease, including the present value of minimum lease payments, subsequent to December 31, 2002 are as follows:

2003	$	29,369
2004		17,132
		46,501
Less amount representing interest		8,304
		38,197
Less current installments of obligations under capital lease		22,846
Long-term obligation under capital lease	$	15,351

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 requires disclosures about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of December 31, 2002. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of financial instruments.

Management estimates the fair value of receivables, accounts payable and accrued expenses and notes payable approximate the carrying value due to the short maturity of these instruments.

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Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In 2002, the Company rented office space from a related party under a month-to-month verbal agreement. Subsequent to the year ended December 31, 2002, the Company entered into a two year operating lease with the related party which expires December 2004.

The Company also leases certain office equipment under noncancelable operating leases expiring through March 2007.

Rent expense for office facilities which was paid to the related party for the year ended December 31, 2002 was $48,000. Rent expense for office equipment charged to operations for the year ended December 31, 2002 was approximately $17,000. Future minimum rentals are as follows for the years ended December 31:

	Related Party	Other	Total
2003	$ 60,000	$ 14,298	$ 74,298
2004	60,000	14,298	74,298
2005	-	12,859	12,859
2006	-	9,980	9,980
2007	-	2,495	2,495
	$ 120,000	$ 53,930	$ 173,930

The Company is, from time to time, involved in lawsuits arising in the normal course of business that, in the opinion of management, will not have a material effect on the Company's results of operation.

At December 31, 2002, the Company has recorded on its balance sheet a liability of approximately $830,000 for payroll tax withholdings with various tax authorities related to an affiliated company that ceased operations as of December 31, 2002. The Company has obtained legal counsel and anticipates that it will be able to successfully reach a settlement for an amount less than the current amount recorded, although no gain contingency has been recorded.

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Asmara, Inc. and Affiliates
Notes to the Combined Statements
December 31, 2002

NOTE 12 - RELATED PARTY TRANSACTIONS

During 2002, the Company wrote off receivables from affiliated companies (through common ownership) totaling approximately $597,000. At the present time, these companies are not operating companies and they do not have the ability to pay these receivables.

At December 31, 2002, the Company owes a related party $431,531 and this same party owes the Company $408,455. As described in Note 11, the Company leases office space from the related party.

NOTE 13 - SUBSEQUENT EVENTS

On April 25, 2003, the stockholder of Asmara, Inc. (the "Seller") signed an agreement to sell: all intangible personal property, all cash on deposit, all accounts receivable, all contracts with customers and suppliers, all governmental authorizations, all insurance programs offered by the Seller to its customers, all interest in securities named of all subsidiaries (including Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc. and Asmara of Florida IV, Inc.) as well as certain other assets to The Resourcing Solutions Group, Inc. (the "Buyer"). In consideration for the assets purchased, the Buyer will assume approximately $1,955,000 of debt of Asmara, Inc. (and its subsidiaries) including $430,000 due to the shareholder of Asmara, Inc. and the Seller will receive approximately $5,000 in cash. Thereafter, on an annual basis, the Buyer shall deliver options to the Seller as follows:

a. 500,000 shares of the common stock of the Buyer, at a strike price of $0.03 per share should Asmara, Inc. achieve an average EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of greater than 1% and less than 2% of sales during the 24 months following the closing, or
b. 1,000,000 shares of the common stock of the Buyer, at a strike price of $0.03 per share should Asmara, Inc. achieve an average EBITDA of greater than 2% of sales over the 24 months following the closing.

Also, on April 25, 2003, the stockholder of Woodstock Lumber Sales, Inc. (the "Seller") signed an agreement to sell 100% of the outstanding capital stock of the Seller to The Resourcing Solutions Group, Inc. (the "Buyer"). The Buyer will assume approximately $35,000 in debt in connection with the purchase. The Seller will receive $1,000 in cash.

Asmara, Inc. and Affiliates
Combined Balance Sheet
September 30, 2003
(Unaudited)

ASSETS	
Current Assets:	
Cash	$ 1,115
Other receivables	2,150
Prepaid expenses	29,617
Workers compensation insurance deposit	96,342
Total current assets	129,224
Property and equipment, net of accumulated depreciation	70,888

Other Assets:	
Goodwill	2,279,376
Deposits	5,250
Total other assets	2,284,626
Total assets	$ 2,484,738

LIABILITIES AND STOCKHOLDERS' EQUITY DEFICIT

Current Liabilities:	
Accounts payable and accrued expenses	$ 119,220
Payroll tax and payroll related liabilities	1,985,750
Current portion of leases payable	21,850
Current portion of long term debt	135,848
Income taxes payable	3,500
Loans payable to officers/stockholders	378,780
Total current liabilities	2,644,948
Long-term debt 22,000	
Commitments and contingencies	-
Common stock 9,750	
Retained deficit	(191,960)
Total stockholders' equity (deficit)	(182,210)
Total liabilities and stockholders' equity	$ 2,484,738

Asmara, Inc. and Affiliates
Combined Statement of Operations
For the Nine Months ended September 30, 2003
(Unaudited)

Revenue	$ 2,130,564
Cost of sales	1,608,807
Gross profit	521,756
Operating costs and expenses:	
Depreciation and amortization	5,000
Interest expense	5,713
General and administrative expenses	1,097,403
Total operating costs and expenses	1,108,116
Net loss from operations	$ (586,359)

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INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

On April 30, 2003, The Resourcing Solutions Group, Inc. (the "Company"), a majority-owned subsidiary of Pacel Corp., acquired substantially all of the assets of Asmara, Inc. ("Asmara"), pursuant to an Asset Purchase Agreement dated April 25, 2003 and 100% of the outstanding common stock of Woodstock Lumber Sales, Inc. ("Woodstock"), pursuant to a Stock Purchase Agreement dated as of April 25, 2003 (collectively the "Agreements"), by and between the Company, Asmara, Woodstock and W. Revel Bellamy, as the sole shareholder of Asmara and Woodstock.

Pursuant to the Agreements, the selected assets of Asmara sold include: all intangible personal property, all cash on deposit, all non-related party accounts receivable, all contracts with customers and suppliers, all governmental authorizations, all insurance programs offered by the Seller to its customers, all interest in securities named of all subsidiaries (including Asmara of Florida I, Inc., Asmara of Florida II, Inc., Asmara of Florida III, Inc. and Asmara of Florida IV, Inc.) as well as certain other assets. In consideration for the assets purchased, the Company will assume approximately $1,955,000 of debt of Asmara including $430,000 due to the sole shareholder of Asmara, Inc. and Asmara received approximately $5,000 in cash. Thereafter, on an annual basis, the Buyer shall deliver options to W. Revel Bellamy, as sole shareholder of Asmara, the following:

c. 500,000 shares of the common stock of the Buyer, at a strike price of $0.03 per share should Asmara achieve an average EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of greater than 1% and less than 2% of sales during the 24 months following the closing, or
d. 1,000,000 shares of the common stock of the Buyer, at a strike price of $0.03 per share should Asmara achieve an average EBITDA of greater than 2% of sales over the 24 months following the closing.

Pursuant to the Agreements, the stockholder of Woodstock sold 100% of the outstanding capital stock of Woodstock to the Company. The Company assumed approximately $35,000 in debt in connection with the purchase and the Seller received $1,000 in cash.

The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed. The estimated fair value of the assets and liabilities assumed approximated the historical cost basis, and the Company recorded $70,000 of fees and $1,859,858 of goodwill in conjunction with this acquisition. The consideration paid by the Company was funded by the Company existing equity lines of credit obtained through the issuance of common stock.

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INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL INFORMATION
(continued)

The following unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2002 gives effect to the acquisition as if it had occurred on January 1, 2002. The following unaudited pro forma condensed consolidated statement of operations for the nine months ended September 31, 2003 gives effect to the acquisition as if it had occurred on January 1, 2003 and presents the allocation of the purchase price over historical net book value and is for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the purchase has been consummated on such dates, nor is it necessarily indicative of future operating results or financial position. Actual fair values were based on financial information as of the acquisition date.

The pro forma adjustments represent, in the opinion of management, all adjustments necessary to present the Company's pro forma combined financial position and results of its combined operations in accordance with Article 11 of Regulation S-X of the Securities Exchange Act of 1934 based upon available information and certain assumptions considered reasonable under the circumstances.

The unaudited pro forma combined financial information should be read in conjunction with the audited financial statements of the Company and the notes thereto.

Pacel Corp.
Unaudited Pro Forma Consolidated Condensed Statement of Operations
For the Nine Months ended September 30, 2003

	Pacel Corp.	Asmara	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	$ 2,507,291	$ 877,200	$ -	$ 3,384,491
Cost of sales	1,898,953	748,334	-	2,647,287
Gross profit	608,338	128,866	-	737,204
Depreciation and amortization	15,722	10,436	(2,262)(1)	23,896
Interest expense	125,015	4,572	-	129,587
Financing expense	393,818	-	-	393,818
Sales, general and administrative	2,163,543	345,572	-	2,509,115
Total operating costs	2,698,098	360,580	(2,262)	3,056,416
Other income (expenses)	-	-	-	-
Net loss	$(2,089,760)	$ (231,714)	$ 2,262	$ (2,319,212)
Net loss per share:				
Basic	$ (0.01)			$ (0.01)

Diluted	$ (0.01)			$ (0.01)
Weighted average shares outstanding:				
Basic	193,620,431			193,620,431
Diluted	193,620,431			193,620,431

The accompanying notes are an integral part to these financial statements.

Pacel Corp.
Unaudited Pro Forma Consolidated Condensed Statement of Operations
For the year ended December 31, 2002

	Pacel Corp.	Asmara	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	$ 298,419	$ 4,057,317	-	$ 4,355,736
Cost of sales	281,339	2,870,845	-	3,152,184
Gross profit	17,080	1,186,472	-	1,203,552
Research and development	9,121	-	-	9,121
Depreciation and amortization	55,618	19,800	4,728 (1)	80,146
Interest expense	141,450	17,486	-	158,936
Financing expenses	235,509	-	-	235,509
Sales, general and administrative	4,367,365	1,377,006	-	5,526,058
Total operating costs	4,809,063	1,414,292	4,728	6,228,083
Other income (expenses):				
Write-off of related party receivable	-	(597,060)	-	(597,060)
Loss before extraordinary Items	(4,791,183)	(824,880)	(4,728)	(5,621,591)
Gain on extinguishment of debt	426,150	-	-	426,150
Discontinued operations:				
Loss from operations	(220,268)	-	-	(220,268)
Gain on disposal	177,817	-	-	177,817
Cumulative effect of accounting change	(407,049)	-	-	(407,049)
Net loss	$(4,815,333)	$ (824,880)	$ (4,728)	$ (5,644,941)

Pacel Corp.
Unaudited Pro Forma Consolidated Condensed Statement of Operations
For the year ended December 31, 2002

	Pacel Corp.	Asmara	Pro Forma Adjustments	Pro Forma Consolidated
Net loss per share:				
Basic	$ (0.33)			$ (0.38)
Diluted	$ (0.33)			$ (0.38)
Weighted average shares outstanding:				
Basic	14,714,561			14,914,561
Diluted	14,714,561			14,914,561

The accompanying notes are an integral part to these financial statements.

Pacel Corp.
Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information

The pro forma adjustments give effect to the acquisition of Asmara and Woodstock as if the transaction was consummated on January 1, 2003. The pro forma adjustments are as follows:

(1) To reflect adjustment of depreciation of fixed assets.