

# PRESS RELEASE



## PARETO THIRD QUARTER REVENUES INCREASE 55%

TORONTO, ONTARIO November 10, 2004 - **PARETO CORPORATION** ("Pareto") (TSX: PTO) today announced its financial results for the third quarter ended September 30, 2004.

Highlights for the quarter include:

Revenue of \$7.6 million, up 55% from \$4.9 million in 2003 – the highest quarterly revenues in Pareto's history, driven by significant organic growth and by the acquisition of Barry Rayner Associates on August 13, 2004.

EBITDA (earnings before amortization, interest, share-based compensation and income taxes) of \$623,000 compared to \$304,000 in Q3 2003; and

Diluted EPS of \$0.01, compared to \$0.01 in Q3 2003.

For the nine months ended September 30, highlights were:

Revenue of \$21.8 million up from \$12.7 million, driven by an 60% organic growth rate over the first nine months of 2003;

EBITDA of \$1.7 million, up from \$0.7 million; and

Diluted EPS of \$0.04, up from \$0.01.

"The third quarter was another great quarter for Pareto, as we not only kept up our string of record breaking quarters but positioned our company to have a terrific fiscal 2004," stated Kerry Shapansky, President and Chief Executive Officer of Pareto. "In the first nine months of 2004, we have now generated more revenue, EBITDA and net income than was earned in all of fiscal 2003."

"We continue to have great success in our sales efforts in 2004. We have not only expanded our relationships with our existing clients but have secured meaningful projects with new clients for the balance of 2004 and into 2005, as evidenced by our deferred revenue balance of \$11 million at September 30, 2004. Based on these strong sales efforts we now expect a strong finish to fiscal 2004 for Pareto".

"The third quarter also saw Pareto add marketing program administration to our suite of service offerings through the acquisition of Barry Rayner Associates. Expanding our service offerings has been extremely successful for Pareto, as our new service offerings in 2004 have been significant drivers to our growth this year."

“Our goal is to grow, but grow prudently utilizing reasonable levels of debt without significant share dilution. I am very proud in the way we have grown our business. After quarter end, in October, Pareto completed a \$1 million private placement at \$1.00 per share to further reduce our debt.”

Pareto will hold an investor call on Wednesday, November 10, 2004, at 11 a.m. EST to discuss the results. Callers in Toronto should dial (416) 405-9328. All other callers can access the call at 1-800-387-6216. A playback of the call will also be available by telephone for 48 hours at (416) 695-5800 or 1-800-408-3053 (access code: 3111743#). A recording of the call will also be available in the Investor Relations section of Pareto’s website ([www.pareto.ca](http://www.pareto.ca)) shortly thereafter.

### **About Pareto Corporation**

Pareto Corporation is a marketing services company that excels at handling the executional details of marketing programs, providing services that complement client marketing and sales departments. Through the delivery of print management, event management, interactive technologies, tactical field marketing, program management, customer incentive and loyalty management services as well as fulfillment and distribution services, Pareto provides measurable, quantifiable services that deliver big value to our clients’ vital business relationships. For more information, please visit our website at [www.pareto.ca](http://www.pareto.ca).

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***This press release contains forward-looking statements related to expected future events and financial operating results of the Company that involves risks and uncertainties. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including market and general economic conditions and the risks and uncertainties detailed from time to time in the Company’s SEDAR filings.***

***The TSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this press release.***

## Pareto Corporation Consolidated Balance Sheets

	September 30 2004 (unaudited)	December 31 2003 (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 947,807	\$ 947,441
Accounts receivable	12,076,579	4,462,394
Current future income tax assets	121,268	222,545
Work in progress	3,117,858	1,661,336
Inventory and other current assets	433,184	343,957
	16,696,696	7,637,673
<b>Other assets</b>	<b>633,184</b>	<b>482,124</b>
<b>Capital assets</b>	<b>1,157,656</b>	<b>576,800</b>
<b>Goodwill and intangible assets</b>	<b>10,509,374</b>	<b>6,069,684</b>
	<b>\$ 28,996,910</b>	<b>\$ 14,766,281</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 6,978,281	\$ 4,294,528
Current portion of deferred revenue	11,133,309	3,555,790
Current future income tax liabilities	33,672	33,672
Current portion of long-term debt	-	700,000
Current portion of acquisition notes payable	120,000	856,250
	18,265,262	9,440,240
<b>Long-term deferred revenue</b>	<b>-</b>	<b>627,532</b>
<b>Long-term future income tax liabilities</b>	<b>394,556</b>	<b>198,333</b>
<b>Acquisition notes payable</b>	<b>10,000</b>	<b>100,000</b>
<b>Long-term debt</b>	<b>3,868,960</b>	<b>-</b>
	<b>22,538,778</b>	<b>10,366,105</b>
<b>Shareholders' equity</b>		
Share capital	4,849,898	4,240,499
Contributed surplus	166,615	118,012
Warrants	200,840	93,200
Retained earnings (deficit)	1,240,779	(51,535)
	<b>6,458,132</b>	<b>4,400,176</b>
	<b>\$ 28,996,910</b>	<b>\$ 14,766,281</b>

**Pareto Corporation**

**Consolidated Statements of Operations and Retained Earnings (Deficit)**

**For the periods ended September 30 (unaudited)**

	Three Months		Nine Months	
	2004	2003	2004	2003
<b>Revenue</b>	<b>\$ 7,588,106</b>	<b>\$ 4,889,182</b>	<b>\$ 21,789,072</b>	<b>\$ 12,653,697</b>
<b>Direct costs</b>	<b>4,823,083</b>	<b>3,401,462</b>	<b>14,708,211</b>	<b>8,767,392</b>
<b>Gross profit</b>	<b>2,765,023</b>	<b>1,487,720</b>	<b>7,080,861</b>	<b>3,886,306</b>
<b>Selling and administration expenses</b>	<b>2,141,932</b>	<b>1,183,559</b>	<b>5,389,639</b>	<b>3,222,959</b>
	<b>623,091</b>	<b>304,161</b>	<b>1,691,222</b>	<b>663,347</b>
Amortization of capital assets	<b>80,643</b>	<b>73,718</b>	<b>206,127</b>	<b>181,909</b>
Amortization of intangible and other assets	<b>28,836</b>	<b>10,500</b>	<b>74,006</b>	<b>31,500</b>
Loss on lease termination	<b>-</b>	<b>-</b>	<b>-</b>	<b>100,000</b>
Interest and finance charges	<b>66,443</b>	<b>19,050</b>	<b>86,709</b>	<b>90,031</b>
Share-based compensation	<b>14,567</b>	<b>19,548</b>	<b>48,603</b>	<b>59,508</b>
	<b>190,489</b>	<b>122,816</b>	<b>415,445</b>	<b>462,948</b>
Earnings before income taxes	<b>432,602</b>	<b>181,345</b>	<b>1,275,777</b>	<b>200,399</b>
Income taxes (recovery)	<b>(4,060)</b>	<b>(3,990)</b>	<b>(16,537)</b>	<b>(23,222)</b>
<b>Net earnings for the period</b>	<b>436,662</b>	<b>185,335</b>	<b>1,292,314</b>	<b>223,621</b>
<b>Retained earnings (deficit), beginning of period</b>	<b>804,117</b>	<b>(471,256)</b>	<b>(51,535)</b>	<b>(513,398)</b>
<b>Retained earnings (deficit), end of period</b>	<b>\$ 1,240,779</b>	<b>\$ (285,921)</b>	<b>\$ 1,240,779</b>	<b>\$ (289,777)</b>
<b>Earnings per share:</b>				
Basic	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ 0.01</b>
Diluted	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ 0.01</b>
<b>Average number of common shares outstanding:</b>				
Basic	<b>33,806,729</b>	<b>32,172,748</b>	<b>33,464,210</b>	<b>32,112,686</b>
Diluted	<b>36,305,578</b>	<b>32,822,581</b>	<b>35,475,918</b>	<b>32,971,019</b>

## Pareto Corporation Consolidated Statements of Cash Flows

**For the periods ended September 30 (unaudited)**

	Three Months		Nine Months	
	2004	2003	2004	2003
<b>Operating activities</b>				
Net earnings for the period	\$ 436,662	\$ 185,335	\$ 1,292,314	\$ 223,621
Items not involving cash:				
Amortization of capital assets	80,643	73,718	206,127	181,909
Amortization of intangible assets and deferred start-up costs	28,836	10,500	74,006	31,500
Amortization of deferred finance costs	11,806	4,167	22,918	32,444
Share-based compensation costs	14,567	19,548	48,603	59,508
Change in future income taxes	(4,060)	(3,990)	(16,537)	(91,970)
	<u>568,454</u>	<u>289,278</u>	<u>1,627,431</u>	<u>437,012</u>
Changes in non-cash operating accounts	50,781	32,809	(109,618)	732,344
	<u>619,235</u>	<u>322,087</u>	<u>1,517,813</u>	<u>1,169,356</u>
<b>Investing activities</b>				
Capital asset additions	(142,065)	(304,176)	(223,309)	(349,618)
Other asset additions	(55,514)	-	(210,234)	-
Acquisitions, net of cash acquired	(3,643,653)	-	(3,643,653)	-
	<u>(3,841,232)</u>	<u>(304,176)</u>	<u>(4,077,196)</u>	<u>(349,618)</u>
<b>Financing activities</b>				
Payment of acquisition notes payable	(30,000)	(30,000)	(826,250)	(396,250)
Repayment of long-term debt	-	(75,000)	(700,000)	(575,000)
Issuance of long-term debt	3,868,960	-	3,868,960	-
Issuance of shares	-	-	85,999	-
Issuance of common share purchase warrants	131,040	-	131,040	-
	<u>3,970,000</u>	<u>(105,000)</u>	<u>2,559,749</u>	<u>(971,250)</u>
<b>Increase (decrease) in cash for the period</b>	<b>748,003</b>	<b>(87,089)</b>	<b>366</b>	<b>(151,512)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>199,804</b>	<b>621,066</b>	<b>947,441</b>	<b>685,489</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 947,807</b>	<b>\$ 533,977</b>	<b>\$ 947,807</b>	<b>\$ 533,977</b>