



PARETO

PARETO ANNOUNCES FIRST QUARTER FINANCIAL RESULTS

Company records 34% revenue growth and 36% EBITDA growth over previous year

TORONTO, ONTARIO, May 12, 2005 – Pareto Corporation (TSX: PTO), a leading marketing services company, today announced its financial results for the three months ended March 31, 2005.

Q1 2005 Highlights

- Revenue of \$9.1 million, up 34% from the first quarter of 2004
- EBITDA of \$0.7 million, a 36% increase over the previous year
- Diluted earnings per share of \$0.01, consistent with Q1 2004
- Strong new business development including the addition of several marquee clients and strong initial Elevate Incentives sales
- Rebranding of 2004 acquisition Barry Rayner Associates to Pareto

“I am pleased with our continued ability to execute on our strategy of growing both organically and through the successful integration of acquisitions,” said Kerry Shapansky, Pareto’s President and Chief Executive Officer. “We added clients like Home Depot, Callaway Golf, and Bell ExpressVu during the first quarter. Our newly launched Elevate Incentives subsidiary made its first sales, and we expect it to contribute over \$5 million of revenue in 2005. Our Barry Rayner Associates acquisition of last year has now been rebranded as Pareto and already this year has contributed its expertise to seven Pareto clients in addition to its core relationship with Ford.”

Mr. Shapansky added: “We achieved our expectations in the first quarter. Coupled with our new business development pipeline Pareto is positioned for another year of dramatic growth. Historically our first quarter revenues have been 15% -17% of full year revenues.”

Financial Review

Revenues for the quarter ended March 31, 2005 totaled \$9.1 million, up from \$6.8 million in the same period in 2004. Approximately 25% of the Company’s revenues were contributed by new business units not included in the 2004 results – Barry Rayner Associates division acquired in August 2004, and Elevate Incentives, which began operations in January 2005.

Pareto’s existing business units experienced organic growth in spite of a shift of \$1.7 million of Event Solutions revenues which occurred in Q1 last year to Q2 this year. Excluding Event Solutions, revenues from existing units grew organically by approximately 40%, derived from both existing and new clients.

Operating and administrative expenses were \$8.4 million in Q1 of 2005, up 34% from \$6.3 million the year before, with the increase largely caused by the inclusion of the Barry Rayner Associates Division.

Earnings before interest, taxes, depreciation, amortization and share-based compensation (EBITDA) was \$678,888 compared to \$498,256 in 2004, an increase of 36%, consistent with the increase in revenue. EBITDA as a percentage of revenue represented 7.4% in Q1 of 2005, up marginally compared to 7.3% in the same quarter last year.

Pareto recorded net earnings of \$322,430 in the first quarter of 2005, down from \$431,446 the prior year. While pre-tax earnings increased by approximately 15% over last year, the Company recorded \$164,238 of income tax expense in Q1 2005 compared to a tax recovery of \$8,418 in Q1 2004.

Deferred revenue and accounts receivable increased significantly at March 31, 2005 compared to December 31, 2004. This was driven by advance billings to clients in the Event Division for projects which will occur in Q2 of 2005. The second quarter will be the largest quarter in 2005 for Event revenues, as a result Q1 work in progress increased by \$2.0 million in advance of completion of these projects.

For a complete discussion of Pareto's first quarter results, please see the Company's interim financial statements, notes thereto, and management discussion and analysis.

Conference Call

Pareto will host an investor conference call to discuss these results at 10:00 a.m. EST, May 12, 2005.

DIAL-IN NUMBER: 416- 640-4127 or 1-800-814-4859

TAPED REPLAY: 416- 640-1917 or 1-877-289-8525

Available until May 19, 2005

Reference Number: 21123786

WEBCAST: www.pareto.ca ("Investor Relations" section)
To be archived for one year

About Pareto Corporation

Pareto Corporation is a marketing services company that offers retail, incentive, event and managed solutions to leading Canadian companies in the financial services, automotive, retail, communications, pharmaceutical, service and technology sectors. Pareto provides measurable, quantifiable services that complement our clients' marketing and sales departments and deliver big value to their vital business relationships. For more information, please visit our website at www.pareto.ca.

For further information, contact:

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This press release contains forward-looking statements related to expected future events and financial operating results of Pareto that involve 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 Pareto's SEDAR filings.

The Toronto Stock Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this press release.

Pareto Corporation Consolidated Balance Sheets

	March 31 2005 (unaudited)	Dec.31 2004 (audited)
Assets		
Current assets		
Cash	\$ 231,742	\$ 964,056
Accounts receivable	11,744,222	8,265,330
Income taxes recoverable	254,276	403,753
Work in progress	3,276,140	1,161,067
Inventory and other current assets	422,817	540,127
Current future income tax assets	281,507	359,532
	16,210,704	11,693,865
Deferred costs and other assets	858,860	869,839
Capital assets	1,122,120	1,158,899
Goodwill and intangible assets	11,318,933	11,244,166
	\$ 29,510,617	\$ 24,966,769
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,518,964	\$ 8,004,616
Current portion of deferred revenue	9,298,063	5,168,782
Current future income tax liabilities	82,784	82,784
Current portion of acquisition notes payable	170,000	435,000
Current portion of long-term debt	500,000	500,000
	17,569,811	14,191,182
Long-term future income tax liabilities	427,880	448,576
Long-term debt	1,374,999	1,500,000
Total liabilities	19,372,690	16,139,758
Non-controlling interest	133,331	161,633
Shareholders' equity		
Share capital	6,867,916	5,867,592
Contributed surplus	202,278	185,814
Special warrants	46,400	46,400
Common share purchase warrants	131,040	131,040
Retained earnings	2,756,962	2,434,532
Total shareholders' equity	10,004,596	8,665,378
	\$ 29,510,617	\$ 24,966,769

Pareto Corporation
Consolidated Statements of Operations and
Retained Earnings (Deficit)

For the quarter ended March 31, (unaudited)	2005	2004
Revenue	\$ 9,141,811	\$ 6,811,555
Operating and administrative expenses	8,462,923	6,313,299
	<u>678,888</u>	<u>498,256</u>
Amortization of capital assets	84,056	61,132
Amortization of intangible assets and deferred costs	57,298	22,585
Interest and finance charges, net	62,704	10,237
Share-based compensation	<u>16,464</u>	<u>16,465</u>
	<u>220,522</u>	<u>110,419</u>
Earnings before income taxes and non-controlling interest	458,366	387,837
Income taxes (recovery)	164,238	(8,418)
Non-controlling interest	(28,302)	(35,191)
Net earnings for the period	322,430	431,446
Retained earnings (deficit), beginning of period	2,434,532	(51,535)
Retained earnings, end of period	\$ 2,756,962	\$ 379,911
Basic and diluted earnings per share	\$ 0.01	\$ 0.01
Average number of common shares outstanding:		
Basic	36,049,440	33,179,906
Diluted	38,341,373	34,125,552

Pareto Corporation Consolidated Statements of Cash Flows

For the quarter ended March 31 (unaudited)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	\$ 322,430	\$ 431,446
Items not involving cash:		
Amortization of capital assets	84,056	61,132
Amortization of intangible assets and deferred costs	57,298	22,585
Non-cash interest and finance charges	9,464	5,556
Share-based compensation costs	16,464	16,465
Non-controlling interest	(28,302)	(35,191)
Change in future income taxes	57,329	(8,418)
	518,738	493,575
Changes in non-cash operating accounts	(1,691,649)	206,153
	(1,172,910)	699,728
Investing activities		
Capital asset additions	(47,277)	(34,110)
Other asset additions	(22,450)	(17,015)
Acquisitions, net of cash acquired	(100,000)	0
	(169,727)	(51,125)
Financing activities		
Change in acquisition notes payable	(265,000)	(336,250)
Repayment of long-term debt	(125,001)	(700,000)
Issuance of shares	1,005,413	33,500
Share issue costs	(5,089)	0
	610,323	(1,002,750)
Increase (decrease) in cash for the period	(732,314)	(354,147)
Cash and cash equivalents, beginning of the period	964,056	947,441
Cash and cash equivalents, end of period	\$ 231,742	\$ 593,294