



PARETO

PARETO ANNOUNCES SECOND QUARTER FINANCIAL RESULTS

Company doubles revenue and net earnings over previous year

TORONTO, ONTARIO, August 15, 2005 – Pareto Corporation (TSX: PTO), a leading marketing services company, today announced its financial results for the three months ended June 30, 2005.

Q2 2005 Highlights

- Revenue of \$15.3 million, up 107% from the second quarter of 2004
- EBITDA of \$1.5 million, a 170% increase over the previous year
- Diluted earnings per share of \$0.02, compared to \$0.01 in Q2 2004
- Corporate event revenues show robust growth, as projected last quarter
- Elevate Incentives issues five times more Aeroplan Miles than Q1 2005

Year-to-Date Highlights

- Revenue of \$24.4 million, a 72% increase over the first six months of 2004
- Organic revenue growth of 31% over last year
- EBITDA of \$2.2 million, up 107% from 2004
- Diluted earnings per share of \$0.03, up from \$0.02 in 2004

“I am very pleased with the strong growth and improved profitability we achieved this quarter. We continue to meet our own aggressive expectations, consistent with the market opportunity we believe exists for a company focused completely on marketing execution,” said Kerry Shapansky, Pareto’s President and Chief Executive Officer. “The results we deliver for our clients have helped us bring in new customers and expand our relationships with existing ones. The best example of this is one of our largest customers, Shoppers Drug Market, which recently renewed its contract with us for another three years.”

Financial Review

Revenues for the quarter ended June 30, 2005 were \$15.3 million, an increase of 107% from \$7.4 million a year earlier. For the six month period ended June 30, 2005, revenues increased by 72% to \$24.4 million. Organic revenue growth, which excludes revenues generated by August 2004 acquisition Barry Rayner Associates, was 61% in the quarter and 31% year to date.

Organic revenue growth in the quarter was driven by the performance of Pareto’s corporate event business and the Elevate Incentives subsidiary Pareto launched at the beginning of 2005 to serve as the sole distributor of Aeroplan Miles as channel and employee incentives. Corporate event revenues grew by 156% over the prior year, due to the timing of several large projects completed in Q2 2005, while comparable client events in 2004 were completed in Q1, and also due to new business growth. For the first six months of 2005, corporate event revenues grew 50% over last year. On a year to date basis, each of Pareto’s business units has contributed to the Company’s revenue growth.

Operating and administrative expenses were \$13.8 million, or 90.0% of Q2 2005 revenues, compared to \$6.8 million, or 92.4% of revenues the year before. The \$6.9 million increase is attributable to the significant revenue growth and the inclusion of \$2.8 million of costs related to the Barry Rayner Associates Division.

Earnings before interest, taxes, depreciation, amortization and share-based compensation (EBITDA) was \$1.5 million in the second quarter of 2005, up 170% from \$564,000 in 2004. EBITDA represented 10.0% of Q2 2005 revenues, compared to 7.6% the previous year. On a last-12-month basis Pareto has generated \$4.5 million of EBITDA since July 1, 2004, representing 9.2% of revenues in that period.

Net earnings in Q2 2005 were \$868,000 or \$0.02 per share (fully diluted), an increase of 105% from \$424,000 or \$0.01 per share in the same quarter last year. Earnings growth lagged EBITDA growth due to increases of approximately \$100,000 in interest and amortization and \$450,000 of income taxes.

Outlook

“Our Event group delivered an outstanding quarter that drove our overall growth in Q2, and we expect the second and fourth quarters to be our strongest in 2005,” said Kerry Shapansky. “We are confident about our continuing growth prospects. Overall, we expect revenues and profits generated in the second half of the year to exceed those of the first half. We anticipate that the level of organic growth realized in the first six months will continue.”

For a complete discussion of Pareto’s second 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 3:00 p.m. EST, August 15, 2005.

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

TAPED REPLAY: 416-640-1917 or 1-877-289-8525
Available until August 22, 2005
Reference Number: 21133365

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 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:

Kerry Shapansky, President and Chief Executive Officer, Pareto Corporation, (416) 790-2350

Clint Becker, Chief Financial Officer, Pareto Corporation, (416) 790-2360

Jeff Codispodi, Investor Relations, Equicom Group, (416) 815-0700 ext.261

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

	June 30 2005 (unaudited)	December 31 2004 (audited)
Assets		
Current assets		
Cash	\$ 1,706,627	\$ 964,056
Accounts receivable	8,622,660	8,265,330
Income taxes recoverable	0	403,753
Work in progress	1,061,986	1,161,067
Inventory and other current assets	523,405	540,127
Current future income tax assets	300,780	359,532
	12,245,458	11,693,865
Deferred costs and other assets	836,669	869,839
Capital assets	1,078,405	1,158,899
Goodwill and intangible assets	11,293,700	11,244,166
	\$ 25,424,232	\$ 24,966,769
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,200,496	\$ 8,004,616
Current portion of deferred revenue	3,159,044	5,168,782
Income taxes payable	235,694	0
Current future income tax liabilities	82,784	82,784
Current portion of acquisition notes payable	40,000	435,000
Current portion of long term debt	500,000	500,000
	12,218,018	14,191,182
Long-term deferred revenue	470,722	0
Long-term future income tax liabilities	407,184	448,576
Long-term debt	1,249,998	1,500,000
	14,345,922	16,139,758
Non-controlling interest	110,549	161,633
Shareholders' equity		
Share capital	6,971,649	5,867,592
Contributed surplus	216,250	185,814
Special warrants	23,000	46,400
Common share purchase warrants	131,040	131,040
Retained earnings	3,625,822	2,434,532
	10,967,761	8,665,378
	\$ 25,424,232	\$ 24,966,769

Pareto Corporation

Consolidated Statements of Operations and Retained Earnings (Deficit)

For the periods ended June 30 (unaudited)

	Three Months		Six Months	
	2005	2004	2005	2004
Revenue	\$ 15,278,951	\$ 7,389,411	\$ 24,420,762	\$14,200,966
Operating and administration expenses	13,758,036	6,825,206	22,220,959	13,138,505
	1,520,915	564,205	2,199,803	1,062,461
Amortization of capital assets	81,188	64,352	165,244	125,484
Amortization of intangible and other assets	57,298	22,585	114,596	45,170
Interest and finance charges, net	72,378	10,029	135,082	20,266
Share-based compensation	13,972	17,571	30,436	34,036
	224,836	114,537	445,358	224,956
Earnings before income taxes and non-controlling interest	1,296,079	449,668	1,754,445	837,505
Income taxes (recovery)	450,001	(4,059)	614,239	(12,477)
Non-controlling interest	(22,782)	29,521	(51,084)	(5,670)
Net earnings for the period	868,860	424,206	1,191,290	855,652
Retained earnings (deficit), beginning of period	2,756,962	379,911	2,434,532	(51,535)
Retained earnings, end of period	3,625,822	804,117	\$ 3,625,822	\$ 804,117
Basic earnings per share	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.03
Diluted earnings per share	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.02
Average number of common shares outstanding:				
Basic	36,333,865	33,403,158	36,183,491	33,291,532
Diluted	38,387,740	35,539,456	38,362,300	35,133,060

Pareto Corporation Consolidated Statements of Cash Flows

For the periods ended June 30 (unaudited)

	Three Months		Six Months	
	2005	2004	2005	2004
Operating activities				
Net earnings for the period	\$ 868,860	\$ 424,206	\$ 1,191,290	\$ 855,652
Items not involving cash:				
Amortization of capital assets	81,188	64,352	165,244	125,484
Amortization of intangible assets and deferred costs	57,298	22,585	114,596	45,170
Non-cash interest and finance charges	9,464	5,556	18,928	11,112
Share-based compensation costs	13,972	17,571	30,436	34,036
Non-controlling interest	(22,782)	29,521	(51,084)	(5,670)
Change in future income taxes	(39,969)	(4,059)	17,360	(12,477)
	968,031	559,732	1,486,770	1,053,307
Changes in non-cash operating accounts	738,333	(360,882)	(953,316)	(154,729)
	1,706,364	198,850	533,454	898,578
Investing activities				
Capital asset additions	(37,473)	(47,134)	(84,750)	(81,244)
Other asset additions	(19,338)	(137,705)	(41,788)	(154,720)
Acquisitions, net of cash acquired	0	0	(100,000)	0
	(56,811)	(184,839)	(226,538)	(235,964)
Financing activities				
Issuance of acquisition notes payable	0	0	100,000	0
Repayment of acquisition notes payable	(130,000)	(460,000)	(495,000)	(796,250)
Repayment of long-term debt	(125,001)	0	(250,002)	(700,000)
Issuance of shares	80,333	52,499	1,085,746	85,999
Share issue costs	0	0	(5,089)	0
	(174,668)	(407,501)	435,655	(1,410,251)
Increase (decrease) in cash for the period	1,474,885	(393,490)	742,571	(747,637)
Cash and cash equivalents, beginning of period	231,742	593,294	964,056	947,441
Cash and cash equivalents, end of period	\$ 1,706,627	\$ 199,804	\$ 1,706,627	\$ 199,804