



# PARETO

## PARETO ANNOUNCES YEAR-END FINANCIAL RESULTS

***Fiscal 2005 Revenue of \$53.0 million; EBITDA up 62% to \$5.5 million; EPS of \$0.08***

**TORONTO, ONTARIO, February 24, 2006** – Pareto Corporation (TSX: PTO), a leading marketing services company, today announced its financial results for the fourth quarter and the year ended December 31, 2005.

### **Fiscal 2005 Highlights**

- Revenue was \$53.0 million in 2005, up 37% from the previous year.
- EBITDA (Earnings before interest, taxes, depreciation, amortization and share-based compensation) for the year was \$5.5 million, representing 10.4% of revenue versus 8.8% in 2004.
- Net earnings of \$3.0 million were up 20% over fiscal 2004. Diluted earnings per share were \$0.08, compared to \$0.05 on a tax affected basis for the prior year.
- Operating activities generated \$4.3 million of cash in 2005, compared to \$3.2 million in 2004.
- A strengthened balance sheet, with \$5.1 million of cash at December 31, 2005 compared to \$1.0 million a year earlier, \$1.5 million of working capital compared to a \$2.5 million deficit, and a 54% increase in shareholders' equity to \$13.4 million.
- Pareto's Elevate Incentives subsidiary recorded \$3.5 million of revenues in its first year of operations.
- The successful integration of August 2004 acquisition Barry Rayner Associates (B.R.A.) was evidenced by the division's growth in revenue and profitability, and by Pareto's ability to introduce new services to Ford, B.R.A.'s major customer.
- Significant customer relationships established and expanded during the year including Home Depot, Bell Expressvu, Transamerica Insurance and Xerox as well as the contract renewal with Shoppers Drug Mart into 2008.

"The strength of our 2005 financial results reaffirms my conviction that we have a significant opportunity to grow this company," said Kerry Shapansky, Pareto's President and Chief Executive Officer. "We have demonstrated an ability to grow both organically and through the effective integration of acquisitions. Our business model has proven to be highly scalable, and our balance sheet strength provides us with the capacity to aggressively pursue strategic options for continued growth."

### **Financial Review**

Pareto's revenues for the year ended December 31, 2005 were \$53.0 million, an increase of \$14.2 million or 37% from \$38.7 million the previous year. Organic growth, defined as new customer relationships and increased sales to existing customers and excluding the impact of the acquisition of B.R.A. division in 2004, was 20%, accounting for 48% of the revenue growth. The remaining 52% of growth is attributable to revenues recorded by the B.R.A. division up to August 2005.

Pareto offers its services in two major business units, Retail Marketing and Channel Marketing. The Retail Marketing business unit recorded \$24 million of revenues in 2005, with Channel

Marketing, which encompasses Pareto's business-to-business marketing capabilities, contributing \$29 million of revenues.

Operating and administrative expenses were \$47.4 million, compared to \$35.3 million in 2004. The 34% rate of increase was below the 37% rate of growth in revenues, as the Company generated a greater proportion of its revenues from higher margin activities as well as benefiting from stretching a fixed overhead structure over a larger revenue base.

EBITDA was \$5.5 million in 2005, an increase of \$2.1 million or 62% from the \$3.4 million of EBITDA recorded in 2004. EBITDA represented 10.4% of revenues in 2005, compared to 8.8% of revenues a year earlier.

Pareto presents EBITDA information as a supplemental figure because management believes it provides useful information regarding operating performance. EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP), does not have standardized meaning, and is unlikely to be comparable to similar measures used by other companies. Accordingly, investors are cautioned that EBITDA should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows.

Net earnings were \$3.0 million in 2005, or \$0.08 per share (fully diluted), an increase of 20% from \$2.5 million or \$0.07 per share in 2004. Earnings growth lagged EBITDA growth due to the Company paying \$1.7 million of income taxes in 2005, compared to \$43,000 the prior year. The Company incurred a negligible income tax expense in 2004 due to the utilization of prior year tax losses. Excluding the impact of those losses, on a tax affected basis for 2004, the Company would have recorded approximately an additional \$875,000 of income tax expense which would have reduced 2004 diluted earnings per share to \$0.05.

#### **Fourth Quarter Results**

For the three months ended December 31, 2005, Pareto's revenues were \$17.9 million, an increase of 5% from \$17.0 million in Q4 2004. This growth was achieved despite a particular customer's seasonal promotion generating \$1.5 million of revenue for Pareto in Q4 2005, compared to \$5 million for an equivalent promotion the previous year.

EBITDA was \$2.3 million in the fourth quarter of 2005, up 39% from the same period the year before. EBITDA represented 12.9% of revenues in Q4 2005, compared to 9.8% a year earlier.

Net earnings were \$1.3 million in Q4 2005, or \$0.04 per share (fully diluted), compared to \$1.2 million or \$0.03 per share in Q4 2004.

Mr. Shapansky commented: "The second and fourth quarters were our strongest of 2005, consistent with our typical pattern. We expect this pattern to continue in 2006."

#### **Outlook**

"We anticipate maintaining a healthy growth rate of at least 20 percent over the long term," said Mr. Shapansky. "The marketing services industry remains highly fragmented, and Pareto has developed a very successful model for integrating acquisitions. We have been devoting more resources to the identification and evaluation of suitable targets. Organic growth opportunities are also abundant, and with our team newly refocused into two clearly defined business units we are better positioned than ever to compete. As we build the business we continue to target improvements to our EBITDA margins, with a long-term target of 14 to 15 percent of revenues."

For a complete discussion of Pareto's 2005 year-end results, please see the Company's audited financial statements, notes thereto, and management's discussion and analysis.

## **Conference Call**

Pareto will host an investor conference call to discuss these results at 8:30 a.m. EST, February 24, 2006. The call may be accessed as follows:

DIAL-IN NUMBER: 416-644-3430 or 1-866-249-2165

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

Reference Number: 21177692

Available until March 3, 2006

LIVE WEBCAST: [www.pareto.ca](http://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 and Channel marketing 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](http://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

December 31	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 5,078,927	\$ 964,056
Accounts receivable	10,760,008	8,265,330
Income taxes recoverable	-	403,753
Work in progress	1,954,353	1,161,067
Inventory and other current assets	513,955	540,127
Current future income tax assets	97,854	359,532
	18,405,097	11,693,865
<b>Deferred costs and other assets</b>	1,043,124	869,839
<b>Capital assets</b>	990,622	1,158,899
<b>Goodwill and intangible assets</b>	11,479,110	11,244,166
	\$ 31,917,953	\$ 24,966,769
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 10,841,641	\$ 8,004,616
Current portion of deferred revenue	4,151,498	5,168,782
Income taxes payable	927,065	-
Current future income tax liabilities	90,551	82,784
Current portion of acquisition notes payable	335,000	435,000
Current portion of long-term debt	500,000	500,000
	16,845,755	14,191,182
<b>Long-term deferred revenue</b>	474,144	-
<b>Long-term future income tax liabilities</b>	398,141	448,576
<b>Long-term debt</b>	832,996	1,500,000
	18,551,036	16,139,758
<b>Total liabilities</b>		
	-	161,633
<b>Shareholders' equity</b>		
Share capital	7,576,707	5,867,592
Contributed surplus	254,192	185,814
Special warrants	-	46,400
Common share purchase warrants	126,454	131,040
Retained earnings	5,409,564	2,434,532
	13,366,917	8,665,378
<b>Total shareholders' equity</b>		
	\$ 31,917,953	\$ 24,966,769

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

<b>For the years ended December 31</b>	<b>2005</b>	<b>2004</b>
<b>Revenue</b>	<b>\$ 52,950,769</b>	<b>\$ 38,745,207</b>
<b>Operating and administrative expenses</b>	<b>47,444,182</b>	<b>35,342,429</b>
	<b>5,506,587</b>	<b>3,402,778</b>
Amortization of capital assets	337,214	303,348
Amortization of intangible assets and deferred costs	225,643	109,983
Interest and finance charges, net	277,116	321,887
Share-based compensation	101,867	67,802
	<b>941,840</b>	<b>803,020</b>
Earnings before income taxes and non-controlling interest	<b>4,564,747</b>	<b>2,599,758</b>
Income taxes	<b>1,660,348</b>	<b>42,657</b>
Non-controlling interest	<b>(70,633)</b>	<b>71,034</b>
<b>Net earnings for the year</b>	<b>2,975,032</b>	<b>2,486,067</b>
<b>Retained earnings (deficit), beginning of year</b>	<b>2,434,532</b>	<b>(51,535)</b>
<b>Retained earnings, end of year</b>	<b>\$ 5,409,564</b>	<b>\$ 2,434,532</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.08</b>	<b>\$ 0.07</b>
<b>Average number of common shares outstanding:</b>		
Basic	<b>36,570,640</b>	<b>33,806,682</b>
Diluted	<b>38,912,305</b>	<b>35,950,718</b>

## Pareto Corporation

### Consolidated Statements of Cash Flows

For the years ended December 31

2005

2004

#### Cash provided by (used in)

##### Operating activities

Net earnings for the year	\$ 2,975,032	\$ 2,486,067
Items not involving cash:		
Amortization of capital assets	337,214	303,348
Amortization of intangible assets and deferred costs	225,643	109,983
Non-cash interest and finance charges	45,353	158,269
Share-based compensation	101,867	67,802
Non-controlling interest	(70,633)	71,034
Future income tax provision	219,010	(25,920)
	<u>3,833,486</u>	<u>3,170,583</u>
Changes in non-cash operating accounts	473,260	(7,818)
	<u>4,306,746</u>	<u>3,162,765</u>

##### Investing activities

Capital asset additions	(168,937)	(321,773)
Other asset additions	(107,514)	(398,287)
Proceeds from note receivable	200,000	-
Acquisitions, net of cash acquired	(202,227)	(3,885,137)
	<u>(278,678)</u>	<u>(4,605,197)</u>

##### Financing activities

Payment of acquisition notes payable	(435,000)	(856,250)
Issuance of long-term debt	-	6,000,000
Repayment of long-term debt	(667,004)	(4,700,000)
Additions to deferred finance costs	(2,500)	(64,996)
Issuance of shares	1,196,396	1,085,999
Share issue costs	(5,089)	(5,706)
	<u>86,803</u>	<u>1,459,047</u>

**Increase in cash for the year**

4,114,871                      16,615

**Cash, beginning of year**

964,056                      947,441

**Cash, end of year**

\$ 5,078,927                      \$ 964,056