



## **PARETO ANNOUNCES FIRST QUARTER FINANCIAL RESULTS**

***Revenue of \$9.5 million; EBITDA up 13% to \$0.8 million; EPS of \$0.01***

**TORONTO, ONTARIO, May 12, 2006** – Pareto Corporation (TSX: PTO), a leading marketing services company, today announced its financial results for the three months ended March 31, 2006.

### **Q1 2006 Highlights**

- Revenue of \$9.5 million, up marginally from Q1 of 2005
- EBITDA (Earnings before interest, taxes, depreciation, amortization and share-based compensation) for the quarter was \$0.8 million, representing 8.0% of revenue versus 7.4% in 2005.
- Net earnings of \$346,000, a 7% year-over-year increase
- Diluted earnings per share were unchanged at \$0.01
- Pareto completed an equity offering of 5 million shares at \$1.50 during the quarter
- Pareto announced a three-year agreement with Quiznos which will see Pareto provide print management, order fulfillment, distribution and warehousing of point-of-purchase marketing collateral to over 400 Quiznos locations in Canada.

“We achieved modest growth in the first quarter, which has traditionally been our slowest quarter of the year due to the seasonal marketing spending patterns of our clients,” said Kerry Shapansky, Pareto’s President and Chief Executive Officer. “I was pleased to see EBITDA increase at a faster rate than revenue, reflecting some initiatives we began last year to improve EBITDA margins. Looking ahead, we believe we will continue to see organic growth in our top and bottom lines in 2006, with most of the growth occurring in the second half of the year. In addition our balance sheet strength positions us very well to take advantage of strategic opportunities in the marketplace. We recently completed a small acquisition, and continue to evaluate a number of larger targets.”

### **Financial Review**

Pareto’s revenues for the three months ended March 31, 2006 were \$9.5 million, an increase of \$0.4 million or 4% from \$9.1 million recorded the prior year. The growth was entirely organic, as the Company had not completed an acquisition in the year prior to the quarter. The revenue growth was due largely to increased revenues from Channel activities including \$1.3 million of revenues derived from Elevate (Pareto’s Aeroplan Mile based Channel incentive offering), partially offset by a decline in the level of activity with Ford and the effect of biennial Event projects which occurred in 2005 and will reoccur in 2007 but did not take place in 2006. Revenues were almost evenly split, with the Retail Marketing activities accounting for 51% and Channel Marketing accounting for 49%.

Operating and administrative expenses were \$8.8 million, representing a 4% increase over the first quarter of 2005. The increase was a result of, and consistent with, the growth in revenues.

EBITDA (Earnings before interest, taxes, depreciation, amortization and share-based compensation) was \$765,000 in Q1 2006, an increase of \$86,000 or 13% from \$86,000 the previous year.

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 \$346,000 in the first quarter, an increase of \$24,000 or 7% compared to the same quarter in 2005. Higher net earnings were offset by a 5% increase in the number of diluted shares outstanding, and fully diluted earnings per share were therefore unchanged at \$0.01.

Pareto's cash balance was \$8.5 million at March 31, 2005, up from \$5.1 million at December 31, 2005. During the quarter Pareto took advantage of supplier payment discounts and preferred pricing, and reduced its accounts payable and accrued liabilities by \$5.0 million. This initiative led to overall operating activities utilizing \$3.6 million of cash in the quarter, while investing activities utilized \$152,000 of cash and financing activities generated \$7.2 million, primarily resulting from a bought deal private placement of 5 million common shares at \$1.50 per share.

As a result of continued profitability and the completed share offering the Company's financial position and capacity are very strong. At March 31, 2006, the Company had \$9.6 million of working capital as well a \$5.5 million demand credit facility which remains unused. Total debt remains relatively low at \$1.5 million representing a debt to EBITDA ratio of only 0.28:1.

For a complete discussion of Pareto's first quarter 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 9:00 a.m. EDT, May 12, 2006. The call may be accessed as follows:

DIAL-IN NUMBER: 416-644-3414 or 1-800-814-4857

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

Reference Number: 21188046

Available until May 19, 2006

LIVE WEBCAST: [www.pareto.ca](http://www.pareto.ca) ("Investor Relations" section)

To be archived for one year.

### **Annual and Special Meeting**

Pareto invites all shareholders and other interested parties to attend its Annual and Special Meeting of Shareholders.

DATE: Monday, May 15, 2006

TIME: 4:00 p.m. EDT

LOCATION: The Gallery, TSX Broadcast & Conference Centre  
The Exchange Tower, 130 King Street West  
Toronto, ON

**About Pareto Corporation**

Pareto Corporation is a marketing services company that offers retail marketing and channel marketing solutions to leading companies in a broad range of industry sectors. Pareto provides measurable, quantifiable services that complement our clients' marketing and sales departments. For more information, please visit our website at [www.pareto.ca](http://www.pareto.ca).

**For further information, contact:**

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

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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 2006 (unaudited)	December 31 2005 (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash or equivalents	\$ 8,503,797	\$ 5,078,927
Accounts receivable	9,568,337	10,760,008
Work in progress	1,808,535	1,954,353
Inventory and other current assets	517,495	513,955
Current future income tax assets	88,379	97,854
	20,486,543	18,405,097
<b>Deferred cost and other assets</b>	<b>1,052,805</b>	<b>1,043,124</b>
<b>Capital assets</b>	<b>1,021,354</b>	<b>990,622</b>
<b>Goodwill and intangible assets</b>	<b>11,453,610</b>	<b>11,479,110</b>
	<b>\$ 34,014,312</b>	<b>\$ 31,917,953</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,810,249	\$ 10,841,641
Current portion of deferred revenue	3,606,623	4,151,498
Income taxes payable	529,015	927,065
Current portion of future income tax liabilities	90,551	90,551
Current portion of long-term debt	500,000	500,000
Current portion of acquisition notes payable	335,000	335,000
	10,871,438	16,845,755
<b>Long term deferred revenue</b>	<b>941,444</b>	<b>474,144</b>
<b>Long term future income tax liabilities</b>	<b>375,503</b>	<b>398,141</b>
<b>Long term debt</b>	<b>707,995</b>	<b>832,996</b>
	<b>12,896,380</b>	<b>18,551,036</b>
<b>Shareholders' equity</b>		
Share capital	15,031,125	7,576,707
Contributed surplus	246,184	254,192
Common share purchase warrants	84,907	126,454
Retained earnings	5,755,716	5,409,564
	21,117,932	13,366,917
	<b>\$ 34,014,312</b>	<b>\$ 31,917,953</b>

**Pareto Corporation**  
**Consolidated Statements of Operations and**  
**Retained Earnings**

<b>For the quarter ended March 31, (unaudited)</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>	<b>\$ 9,532,273</b>	<b>\$ 9,141,811</b>
<b>Operating and administration expenses</b>	<b>8,767,726</b>	<b>8,462,923</b>
	<b>764,547</b>	<b>678,888</b>
Amortization of capital assets	71,430	84,056
Amortization of intangible assets and deferred costs	62,938	57,298
Interest and finance charges, net	33,395	62,704
Share-based compensation	66,469	16,464
	<b>234,232</b>	<b>220,522</b>
Earnings before income taxes and non-controlling interest	530,315	458,366
Income taxes	184,163	164,238
Non-controlling interest	-	(28,302)
<b>Net earnings for the period</b>	<b>346,152</b>	<b>322,430</b>
<b>Retained earnings, beginning of period</b>	<b>5,409,564</b>	<b>2,434,532</b>
<b>Retained earnings, end of period</b>	<b>\$ 5,755,716</b>	<b>\$ 2,756,962</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Average number of common shares outstanding:</b>		
Basic	37,843,930	36,049,440
Diluted	40,257,050	38,341,373

## Pareto Corporation Consolidated Statements of Cash Flows

For the quarter ended March 31, (unaudited)	2006	2005
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	\$ 346,152	\$ 322,430
Items not involving cash:		
Amortization of capital assets	71,430	84,056
Amortization of intangible assets and deferred costs	62,938	57,298
Non-cash interest and finance charges	3,281	9,464
Share-based compensation	66,649	16,464
Non-controlling Interest	-	(28,302)
Future income tax provision	(13,163)	57,329
	537,107	518,738
Changes in non-cash operating accounts	(4,173,068)	(1,691,649)
	(3,635,961)	(1,172,910)
<b>Investing activities</b>		
Capital asset additions	(102,162)	(47,277)
Other asset additions	(50,400)	(22,450)
Acquisitions, net of cash acquired	-	(100,000)
	(152,562)	(169,727)
<b>Financing activities</b>		
Payment of acquisition notes payable	-	(265,000)
Repayment of long-term debt	(125,001)	(125,001)
Issuance of shares	8,009,366	1,005,413
Share issue costs	(670,972)	(5,089)
	7,213,393	610,324
<b>Increase (decrease) in cash for the period</b>	<b>3,424,870</b>	<b>(732,314)</b>
<b>Cash or equivalents beginning of period</b>	<b>5,078,927</b>	<b>964,056</b>
<b>Cash or equivalents end of period</b>	<b>\$ 8,503,797</b>	<b>\$ 231,742</b>