



PARETO

PARETO ANNOUNCES SECOND QUARTER FINANCIAL RESULTS

Revenue of \$13 million; EBITDA of \$1.2 million; EPS of \$0.02

TORONTO, ONTARIO, August 14, 2006 – Pareto Corporation (TSX: PTO), a leading marketing services company, today announced its financial results for the three months ended June 30, 2006.

Q2 2006 Highlights

- Revenue of \$13.0 million, compared to \$15.3 million in Q2 of 2005
- EBITDA (earnings before amortization, net interest and finance charges, share-based compensation, income taxes and non-controlling interest) for the second quarter was \$1.2 million, compared to \$1.5 million in 2005
- Net earnings of \$713,000, compared to \$869,000 a year earlier
- Diluted earnings per share were unchanged at \$0.02
- Elevate Incentives revenue growth of 149% to \$1 million
- Signed a record 10 new clients in the quarter, compared to 17 in all of 2005
- Announced the launch of Pareto Trajectory, a sales channel performance improvement business, enabled by purchasing the assets of Toronto-based consulting firm Trajectory Business Performance Inc.
- Subsequent to quarter-end, Pareto announced the acquisition of SourceLink Canada, a direct marketing company, which is expected to add \$10 million to 2007 revenues and \$1 million to 2007 EBITDA

Year-to-Date Highlights

- Revenue of \$22.6 million, compared to \$24.4 million in the first six months of 2005
- EBITDA of \$2.0 million, representing 8.9% of revenue, compared to \$2.2 million or 9.0% of revenue in the first half of 2005
- Net earnings of \$1.1 million, compared to \$1.2 million in 2005
- Diluted earnings per share were unchanged at \$0.03

“Although our revenues declined in comparison with an extremely strong second quarter of 2005, we have made some significant accomplishments in 2006 that leave us well placed to resume our track record of consistent, long-term growth,” said Kerry Shapansky, Pareto’s President and Chief Executive Officer. “Our Retail Marketing business and Elevate Incentives subsidiary delivered strong results in the quarter. And our sales team has had great success winning new clients such as Canon, BMW, Essilor and Manulife, as well as introducing new services to existing clients. In fact, future period sales have been more robust in recent months than at any other time in the Company’s history.”

Mr. Shapansky continued, “We continue to expect year-over-year revenue growth in the second half of 2006. Looking further ahead, I remain confident that our sales performance, combined with our recent SourceLink acquisition and other corporate development initiatives we continue to pursue, position us very well to become a \$150 million business by the end of 2008.”

Financial Review

Pareto's revenues for the three months ended June 30, 2006 were \$13.0 million, a decrease of \$2.2 million or 15% from \$15.3 million in the second quarter of 2005. The decrease was attributable to a significant decline in Channel revenues caused primarily by the non-recurrence of several major biennial Event projects. As disclosed previously, approximately \$6 million of Event revenue which occurred in 2005 and will reoccur in 2007 did not take place in 2006. Pareto recognized \$4.9 million of this revenue in the second quarter of 2005 to coincide with the timing of the events, resulting in an exceptionally strong quarter. Excluding those biennial events, Event revenues increased by \$0.8 million in Q2 2006. The Channel sales team has filled the entire \$6 million sales hole with new Event projects, and full-year Event revenues are expected to be at least equal to the 2005 total.

An additional cause of the decline in Channel revenues was the loss of approximately \$2 million of business from Ford's US operations which had been anticipated for the first half of 2006, as mentioned in Pareto's Q1 2006 disclosure. These reductions were partially offset by Elevate Incentive revenue growth of \$585,000 or 149% to approximately \$1 million in the second quarter. In total, second quarter Channel revenues of \$7.0 million fell by \$3.6 million or 35% compared to Q2 2005.

Retail marketing revenues, which accounted for 46% of total revenues in the quarter, increased by \$1.3 million or 28% over the second quarter of 2005. The negative impact of reduced promotional spending by a major customer due to its own exceptionally strong sales performance, was more than offset by revenue from new retail clients.

Operating and administrative expenses were \$11.8 million in the second quarter, compared to \$13.8 million a year earlier. The 14% decrease was nearly proportionate to the 15% change in revenues, as improved efficiencies achieved during the past year were offset by increased infrastructure to support future growth.

EBITDA was \$1.2 million in the quarter, representing 9.5% of revenue, compared to \$1.5 million or 10.0% of revenues in Q2 2005. The narrowing of EBITDA margin is a result of lower absorption of fixed costs due to lower revenue.

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 \$713,000 in the second quarter, a decrease of \$156,000 compared to Q2 2005. On a fully diluted basis, earnings per share were unchanged at \$0.02.

Pareto's cash balance was \$5.7 million at June 30, 2006, up from \$5.1 million at December 31, 2005. Operating activities utilized \$1.3 million of cash in the second quarter, compared to generating \$0.5 million in Q2 2005, due largely to an increase in accounts receivable and a decrease in deferred revenue during the quarter. Pareto used \$1.1 million of cash for investing activities in the quarter, primarily for the Trajectory acquisition and the purchase of a new information system for the Company's Retail business. Financing activities used \$0.4 million of cash in the second quarter as the Company repaid acquisition notes payable and long-term debt. Year-to-date, financing activities generated \$6.8 million of cash, led by \$8.1 million of proceeds from the issuance of new shares in a bought deal private placement.

Pareto's financial position and capacity remain strong. At June 30, 2006, the Company had \$8.5 million of working capital, and a \$5.5 million demand credit facility which remains unused. Total debt remains relatively low at \$1.4 million representing a debt to EBITDA ratio of only 0.26:1. The Company funded its \$1.2 million August, 2006 acquisition from existing cash resources.

For a complete discussion of Pareto's second quarter and year-to-date results, please see the Company's audited financial statements, notes thereto, and management's discussion and analysis, all filed on SEDAR.

Conference Call

Pareto will host an investor conference call to discuss these results at 9:00 a.m. EDT, August 14, 2006. The call may be accessed as follows:

DIAL-IN NUMBER:	416-644-3421 or 1-866-250-4877
TAPED REPLAY:	416-640-1917 or 1-877-289-8525 Reference Number: 21199505 Available until August 21, 2006
LIVE 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 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.

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

	June 30 2006 (unaudited)	December 31 2005 (audited)
Assets		
Current assets		
Cash	\$5,682,254	5,078,927
Accounts receivable	13,125,548	10,760,008
Work in progress	1,106,875	1,954,353
Inventory and other current assets	874,450	513,955
Current future income tax assets	327,981	97,854
	21,117,108	18,405,097
Loans receivable	1,300,000	433,333
Deferred costs and other assets	609,879	609,791
Capital assets	1,340,719	990,622
Goodwill and intangible assets	12,149,270	11,479,110
	\$36,516,976	\$31,917,953
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	7,891,469	\$10,841,641
Current portion of deferred revenue	2,276,169	4,151,498
Income taxes payable	1,713,102	927,065
Current future income tax liabilities	93,350	90,551
Current portion of acquisition notes payable	100,000	335,000
Current portion of long-term debt	500,000	500,000
	12,574,090	16,845,755
Long-term deferred revenue	-	474,144
Long-term future income tax liabilities	378,059	398,141
Long-term debt	582,994	832,996
Long-term acquisition notes payable	200,000	-
Total liabilities	13,785,143	18,551,036
Shareholders' equity		
Share capital	15,972,924	7,576,707
Contributed surplus	311,775	254,192
Common share purchase warrants	77,700	126,454
Retained earnings	6,419,434	5,409,564
	22,781,833	13,366,917
Total shareholders' equity	\$36,516,976	\$31,917,953

Pareto Corporation

Consolidated Statements of Operations and Retained Earnings

for the period ended June 30 (unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
Revenue	\$13,036,822	\$15,278,951	\$22,569,095	\$24,420,762
Operating and administration expenses	11,800,529	13,758,036	20,568,255	22,220,959
	1,236,293	1,520,915	2,000,840	2,199,803
Amortization of capital assets	76,107	81,188	147,537	165,244
Amortization of intangible and other assets	62,671	57,298	125,609	114,596
Interest and finance charges, net	(31,632)	72,378	1,763	135,082
Share-based compensation	71,407	13,972	137,876	30,436
	178,553	224,836	412,785	445,358
Earnings before income taxes and non-controlling interest	1,057,740	1,296,079	1,588,055	1,754,445
Non-controlling interest	-	(22,782)	-	(51,084)
Income taxes	344,693	450,001	528,856	614,239
Net earnings for the period	713,047	868,860	1,059,199	1,191,290
Retained earnings, beginning of period	5,755,716	2,756,962	5,409,564	2,434,532
Loss on repurchase of common shares	(49,329)	-	(49,329)	-
Retained earnings, end of period	6,419,434	3,625,822	6,419,434	3,625,822
Basic earnings per share	\$0.02	\$0.02	\$0.03	\$0.03
Diluted earnings per share	\$0.02	\$0.02	\$0.03	\$0.03
Average number of common shares outstanding				
Basic	43,716,300	36,333,865	40,537,939	36,183,491
Diluted	45,409,834	38,387,740	42,310,443	38,362,300

Pareto Corporation

Consolidated Statements of Cash Flows

for the period ended June 30 (unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
Operating activities				
Net earnings for the period	\$713,047	\$868,860	\$1,059,199	\$1,191,290
Items not involving cash:				
Amortization of capital assets	76,107	81,188	147,537	165,244
Amortization of intangible assets and deferred costs	59,390	57,298	125,609	114,596
Non-cash interest and finance charges	3,281	9,464	6,562	18,928
Share-based compensation	71,407	13,972	137,876	30,436
Non-controlling interest	-	(22,782)	-	(51,084)
Future income tax provision	(22,267)	(39,969)	(35,430)	17,360
	850,965	968,031	1,391,353	1,486,770
Changes in non cash operating accounts	(2,211,897)	738,333	(6,384,965)	(953,316)
	(1,310,932)	1,706,364	(4,943,612)	533,454
Investing activities				
Capital asset additions	(359,850)	(37,473)	(462,012)	(84,750)
Other asset additions	(27,845)	(19,338)	(81,526)	(41,788)
Acquisitions, net of cash acquired	(675,695)	-	(675,695)	(100,000)
	(1,063,390)	(56,811)	(1,219,233)	226,538
Financing activities				
Issue of acquisition notes payable	-	-	-	100,000
Repayment of acquisition notes payable	(335,000)	(130,000)	(335,000)	(495,000)
Repayment of long-term debt	(125,001)	(125,001)	(250,002)	(250,002)
Issuance of shares	85,770	80,333	8,095,136	1,085,746
Share issue costs	(1,000)	-	(671,972)	(5,089)
Repurchase of common shares	(71,990)	-	(71,990)	-
	(447,221)	(174,668)	6,766,172	435,655
Increase (decrease) in cash for the period	(2,821,543)	1,474,885	603,327	742,571
Cash and cash equivalents, beginning of period	8,503,797	231,742	5,078,927	964,956
Cash and cash equivalents, end of period	\$5,682,254	\$1,706,627	\$5,682,254	\$1,706,627