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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 31, 2003

Commission File No. 0-9600

**cpac, INC.**

**CPAC, INC.**

(Exact name of registrant as specified in its charter)

**New York**

(State or other jurisdiction of  
incorporation or organization)

**16-0961040**

(IRS Employer Identification Number)

**2364 Leicester Rd.**

**Leicester, New York 14481**

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: **(585) 382-3223**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **\$.01 Par Value Common Stock** (Title of class)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [ X ]

The aggregate market value of the 2,410,171 shares of voting stock held by non-affiliates (persons other than officers, directors, and 5% shareholders) of the Registrant as of September 30, 2002, the last business day of the Registrant's most recently completed second fiscal quarter, was \$13,496,957, based on the closing price of \$5.60 on the Nasdaq National Market as of such date.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of Part III of this Form 10-K are incorporated herein by reference to portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders dated June 20, 2003.

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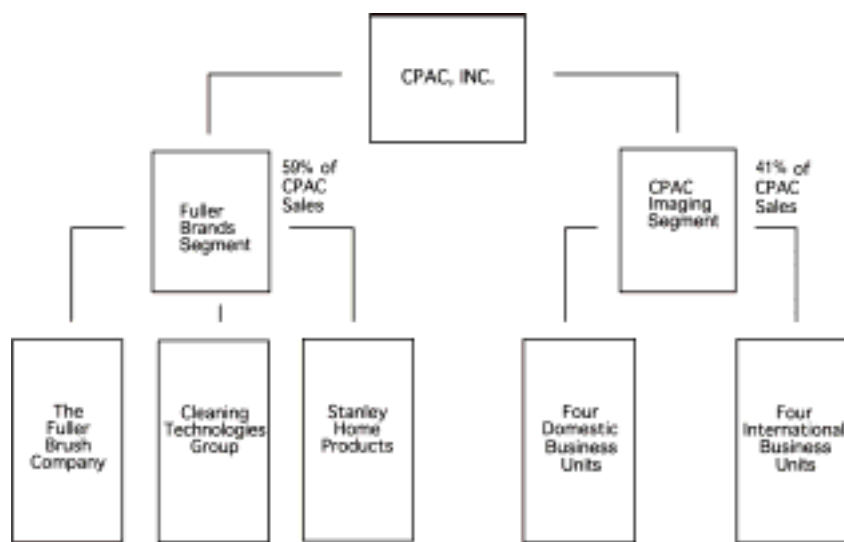
<b><u>PART III</u></b>	<b><u>Caption in Proxy Statement</u></b>
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## PART I

### Item 1. BUSINESS.

#### OVERVIEW

CPAC, Inc. (pronounced C-pack) and its consolidated subsidiaries (herein referred to collectively as "CPAC" or "the Company," unless indicated otherwise) has two principal business Segments: Fuller Brands and CPAC Imaging. The Company's Fuller Brands Segment develops, manufactures, distributes, and markets branded and private-label consumer and commercial cleaning and personal care products in North America and internationally. The Segment called CPAC Imaging includes the Company's color photographic, health care, and graphic arts imaging operations in the United States, Belgium, Italy, South Africa and Thailand, which collectively sell into more than 100 other countries.



CPAC was formed in 1969 as a New York Corporation under the name of Computerized Pollution Abatement Corporation. Its name was shortened to CPAC, Inc. in 1976. The principal executive offices of the Company are located at 2364 Leicester Road, Leicester, New York, 14481, telephone number 585-382-3223. Additional information is available on the Company's web site at (<http://www.cpac.com>).

#### FULLER BRANDS SEGMENT

The Company's Fuller Brands Segment is comprised of three business units that are primarily focused on the development, manufacture, distribution, and marketing of approximately 2,700 branded and private-label products for consumer and commercial cleaning and personal care applications. These business units are The Fuller Brush Company, Inc., Great Bend, KS (acquired in 1994); Stanley Home Products, Agawam, MA (licensed in 1995); and Cleaning Technologies Group (CTG), Great Bend, KS (acquired in 1997).

The Segment's products include home and commercial cleaning products (all-purpose cleaners, degreasers, deodorizers, stain removers, laundry products); stick goods (brooms, brushes, mops); commercial floor care chemicals (finishes and waxes, strippers, sealers, maintainers); custom brush components for OEM applications; and personal care products (hair and skin care, fragrances, cosmetics, vitamins, nutritional supplements). The vast majority of Segment products are manufactured at its 600,000 sq. ft. facility in Great Bend, Kansas.

#### FULLER BRANDS -- CONSUMER

The Consumer component of the Fuller Brands Segment consists of products sold through The Fuller Brush Company and Stanley Home Products business units, which utilize the following channels: direct selling, catalogs, the Internet, retail outlet stores, direct marketing partners, television home shopping, and sweepstakes.

The consumer product lines of these two business units include (i) Home Care products for kitchen, laundry, bath, and general household cleaning, as well as brushes, brooms, and mops and (ii) Personal Care products such as hair and skin care products, fragrances, cosmetics, vitamins and nutritional supplements. The Fuller Brush Company and Stanley Home Products each hold more than 100 registered trademarks in the U.S. and elsewhere for their products.

While most of the Consumer cleaning products for Fuller and Stanley are developed and manufactured in the Great Bend facility, a number of cosmetic and skin care products for Stanley are imported.

### **Direct Selling**

Stanley Home Products and The Fuller Brush Company both have direct selling organizations comprised of independent representatives. Direct selling consists of the sale of a consumer product or service, person-to-person, away from a fixed retail location. The Company also utilizes the "party plan" sales method in which its sales representatives demonstrate products to groups rather than individuals, as well as the traditional "one-on-one" method.

Most of the independent representatives sell part-time, purchasing products from Fuller and Stanley in order to resell them to their customers. Representatives are encouraged to recruit others into the business, thus widening the sales network.

### **Fuller Catalog/Internet**

Both Fuller and Stanley publish full-color catalogs and fliers as a means of marketing their product lines, as well as to promote the direct selling business opportunity. Customers who are not assisted by a direct selling representative can order directly from the company by mailing, telephoning, e-mailing, or faxing an order directly to Customer Service. Additionally, both companies have e-commerce enabled web sites through which consumers can order products directly ([www.fullerbrush.com](http://www.fullerbrush.com) and [www.shponline.com](http://www.shponline.com)).

### **Retail Outlet Stores**

Fuller Brush operates eight Factory Retail Outlet Stores, six of which are located in outlet shopping centers in Kittery, Maine; Branson, Missouri; Myrtle Beach, South Carolina; Pigeon Forge, Tennessee; Kenosha, Wisconsin; and Hagerstown, Maryland; with additional stores located in a regional mall in Chesterfield, Missouri; and at the Fuller Brush plant in Great Bend, KS. All products bear the Fuller Brush brand and are sold at a discount. First quality consumer products comprise approximately 80% of stocked merchandise with the balance consisting of consumer and commercial overstocks, closeouts, and "seconds". The Retail Outlet component of Fuller Brands' Consumer business provides a useful platform for delivering world famous Fuller quality goods to those consumers not covered by a local representative.

### **Direct Marketing Partners**

Fuller-branded consumer products are marketed through national direct marketing partners such as catalog companies, sweepstakes marketers, direct mail firms, Internet marketers, and direct response television. They partner with Fuller Brush to directly promote the Fuller brand to their large audiences, and fulfill orders from their respective distribution centers.

This growing channel complements the direct selling efforts of Fuller representatives, and offers consumers an opportunity to purchase Fuller merchandise in a variety of ways.

## **FULLER BRANDS -- COMMERCIAL**

The Commercial business of the Fuller Brands Segment consists of products sold through The Fuller Brush Company and Cleaning Technologies Group. Commercial sales are broken out into the following three categories: Commercial Cleaning, Custom Products, and Export. The three key Commercial businesses address the needs of a wide array of customers, from retail food store sanitation products to customer designed industrial brushes.

### **Commercial Cleaning**

Cleaning Technologies Group (CTG), the commercial cleaning business unit, manufactures, distributes, and sells sanitary maintenance supplies, professional cleaning products, and stick goods (brooms, brushes, mops). Products are sold through a national network of wholesale janitorial and paper distributors, manufacturers' representatives, and large buying groups that purchase and resell products to end-users such as grocery stores, offices, hotels, retail stores, hospitals, schools, and manufacturing plants. CTG also employs a national sales force of regional representatives to provide service to and manage the accounts of its distribution network. In addition, CTG exhibits its products at national trade shows.

CTG products are marketed under the Franklin Cleaning Technology<sup>®</sup>, Masury-Columbia<sup>®</sup>, Fuller Brush<sup>®</sup> Commercial and Brillo<sup>®</sup> brand names. In all, CTG has over 60 trademarks for general and specific commercial cleaning needs. With the exception of marketing, all of CTG's support functions are located at the Company's Great Bend facility.

### **Custom Products**

The Custom Products business of The Fuller Brush Company designs, manufactures, and sells private-label chemicals and stick goods made to customers' specifications. It principally manufactures OEM brush components; however, it also produces a variety of chemicals, metal handles, and plastic parts. The Custom Products division principally serves the footwear, aviation, durable goods, and agriculture industries.

The company's plant in Kansas features state-of-the-art high-speed lines as well as unique equipment which is used to manufacture brushes and brush components designed for a specialty application.

### **Export**

The Fuller Brush Company services a number of commercial customer accounts in Canada, Mexico, and other countries. It distributes via intermodal transport to Puerto Rico. Primary products exported are home and floor care chemicals and products.

## **COMPETITION**

### **Fuller Brands**

#### ***CONSUMER BUSINESS***

Fuller Brands' Consumer business entails the development, manufacture, and marketing of home cleaning and personal care products that are sold to consumers through the following four channels:

### **Direct Selling**

Both Fuller Brush and Stanley Home Products' direct selling organizations are comprised of thousands of independent representatives in all 50 states who promote home cleaning and personal care products one-on-one and at home parties. The product lines of these two divisions are quite similar. In fact, before becoming part of CPAC, Inc., Fuller Brush and Stanley Home Products competed directly with one another in the marketplace. Now, Fuller representatives can sell both Fuller and Stanley products and vice versa, should they choose.

Direct selling companies compete both in terms of products, and in terms of attracting representatives and customers. Relative to their home cleaning and personal care product lines, Fuller and Stanley compete with direct selling companies such as Altacor<sup>®</sup>, Avon<sup>®</sup>, Mary Kay<sup>®</sup>, and Tupperware<sup>®</sup>. All U.S. direct selling companies compete with Fuller and Stanley for representatives and customers.

Product demonstrations are key to the success of both the Fuller and Stanley direct selling businesses, particularly with the home care lines. To attract a greater number of younger, more diverse representatives, Stanley has added an exclusive skin care line and an exclusive color cosmetics line. These products also lend themselves to personal demonstration and fit perfectly with Stanley's emphasis on strengthening the home party selling style it invented in the 1930's.

Although the Fuller Brush brand has historically been marketed door-to-door, the Company continues to expand its presence in other channels to reach consumers that are not as readily available to direct sellers. In April, 2002 Fuller began selling home care product sets via direct response television [also known as home shopping]. These live televised product demonstrations raise awareness of the Fuller brand, which supports the efforts of the direct selling organization.

Management believes that the personalized demonstrations and service offered by Fuller and Stanley representatives; the rich history of those brands; the high quality and efficacy of the products; and the Company's satisfaction guarantee are significant factors in maintaining a competitive position in direct selling. Based on the venerable Fuller Brush brand, the Company believes that other consumer channels hold opportunity and it will continue to explore them.

### **Fuller Catalog/Internet**

Both Fuller and Stanley maintain e-commerce enabled web sites, which allow consumers to request a catalog by mail and place orders directly with the company. This practice encourages new and repeat sales, creates a "lead" for a field sales representative to pursue, and allows the company to market the business opportunity to potential representatives.

The majority of direct selling companies publish catalogs and/or fliers for representatives to leave behind after a sales call or home party; several allow consumers to order directly. Most well known direct selling companies also have an Internet presence.

As direct selling companies go, Fuller and Stanley have been in business longer than most. For both organizations, a reputation for quality and service has created significant loyalty to the products and to the business opportunity. The Company believes there is still significant brand equity in both names.

Management believes that the Internet channel has enhanced sales, marketing, recruiting, and information-sharing opportunities for its customers and representatives. A significant cost reduction is achieved by communicating electronically

with the field sales force. The Internet also allows current and prospective customers and representatives to self-educate about products.

### **Retail Outlet Stores**

Fuller Brush markets its products in eight retail outlet stores in the U.S., primarily located in well-traveled outlet malls. This channel allows Fuller Brush to efficiently sell first-quality inventory, as well as slow-moving or discontinued items, while enhancing brand awareness.

The Fuller Brush Company uses merchandising and attractive product displays in its retail stores to compete with other mall tenants, such as Oneida<sup>®</sup>, Maidenform<sup>®</sup>, Buster Brown<sup>®</sup>, and Jockey<sup>®</sup>. The number of direct competitors that Fuller faces in the retail outlet channel is limited.

Fuller's brand equity is strong with certain groups of consumers who shop in outlet malls. The stores represent an opportunity for former customers to re-discover Fuller in a retail setting.

Management believes that its retail outlet stores in certain areas of the country are a viable channel for incremental sales and brand awareness.

### **Direct Marketing Partners**

Fuller-branded consumer products are purchased by national direct marketing partners such as catalog companies, direct mail firms, Internet marketers, and direct response television. These partners purchase Fuller products in quantity, then market and distribute them to their audiences and customer lists.

Fuller Brush competes for sales with similar products featured in catalogs, web sites, direct mailings, etc., such as Orange Glo<sup>®</sup> and Oxiclean<sup>®</sup>.

The Fuller brand has recently been reintroduced to consumers through appearances on direct response television. As previously stated, brand equity and high quality are the Company's competitive advantages. These hallmark traits make the Fuller brand attractive to direct marketing partners, and allow Fuller to effectively compete with the vast number of home care competitors.

Management views these direct marketing partner relationships as an effective means of broadening exposure for the Fuller Brush brand. This exposure adds value across every channel.

## ***COMMERCIAL BUSINESS***

Fuller Brands' Commercial business develops, manufactures, and markets commercial cleaning and maintenance chemicals, and stick goods. The Fuller Brands Segment competes with regional, national, and global companies in each of the three industrial channels in which it operates: Commercial Cleaning, Custom Products, and Export.

### **Commercial Cleaning**

Cleaning Technologies Group (CTG), the Fuller Brands Segment's commercial cleaning business unit, markets branded and private-label janitorial and maintenance products through a direct sales force as well as a national distributor network. CTG products are used primarily in offices, hotels, retail stores, hospitals, schools and other public buildings.

Commercial cleaning products is a fragmented industry, and although two companies are significantly larger than others (S.C. Johnson Wax and Ecolab), no single firm or group of firms dominates the industry as a whole. There are numerous small regional or local competitors who focus on limited geographies, product lines and/or customer segments. CTG seeks to fill specific product niches where it feels it can compete favorably, such as providing one-stop sanitation shopping for retail food stores.

CTG has established long-standing relationships with its major commercial cleaning customers based on the ability to "bundle" high quality chemicals and stick goods, and provide value-adds to customers such as lower cost structure, reduced labor, and assistance with training, safety, and environmental standards. Alliances with large national wholesalers, whose scope is national and whose extensive sales force is direct, augment CTG's own network.

### **Custom Products**

This component of Fuller Brands' Commercial business is involved in the manufacture and sale of private-label products made to customers' specifications. The primary products are brushes and brush components, although various chemicals, metal handles, and plastic parts are also produced on a contract basis.

Custom brush competitors tend to be smaller, specialized private companies such as Felton Brush and America Brush Company. These competitors manufacture numerous types of industrial brush finished goods. At present, Fuller Brands specializes in strip and coil type brushes for commercial customers, but intends to grow this category.

Management believes Fuller Brands is able to compete successfully in the custom products arena based on its reputation for high-quality products, exceptional technical support, on-time delivery and an emphasis on superior customer service.

### **Export**

Fuller Brands' export business currently is limited to the selling of branded commercial and household products through a small network of commercial distributors outside of the continental U.S. (primarily in Puerto Rico and Canada).

Through its Imaging Segment, CPAC has an extensive manufacturing and distribution base in key international markets. As in the U.S., export customers demand the best value -- high quality at a competitive price. Fuller Brands' products meet these criteria.

The Company currently has an insignificant share of the global market for cleaning and personal care products, and so management believes a great opportunity exists.

## **CPAC IMAGING SEGMENT**

The Company's CPAC Imaging Segment develops, manufactures, packages, distributes, and markets its extensive line of branded and private-label chemicals and equipment for Color Photographic, Health Care, and Graphic Arts applications.

The classes of products for CPAC Imaging include liquid chemicals for developing silver halide photographic film, photographic paper, radiographic and graphic arts film; chemical mixers for Health Care and Graphic Arts imaging; silver recovery and pollution control equipment and supplies; silver refining services; illuminators for viewing medical x-rays; dry-heat sterilizers used in dental practices; and dental evacuation (suction) units.

Seven of the Imaging Segment's eight business units manufacture products. Equipment is manufactured at the CPAC Equipment Division in Leicester, NY and chemicals are blended and packaged at six other plant locations. An eighth business unit, Profit Recovery Systems (PRS), is exclusively a sales and marketing organization. All products are marketed to businesses, such as photo processing labs, radiology and dental practices, and printing facilities in more than 100 countries worldwide. A superior level of customer and technical support is a distinguishing characteristic of the Segment.

The Imaging Segment manufactures virtually all of its products to better control costs, quality, and inventory levels. This arrangement minimizes the expenses associated with outside vendor overhead and carrying raw goods versus finished goods inventory. The raw materials necessary for manufacture of the Segment's products are readily available from numerous sources and the Imaging Segment is not dependent on any single supplier for any one item.

The refining of customers' recovered silver is conducted under an exclusive agreement with Pioneer Refining Services in Salt Lake City, UT, the largest independent U.S. refiner of photographic silver.

Business units in this Segment include CPAC Equipment Division (CED), Leicester NY (established in 1969); PRS, Inc., St. Louis, MO (established in 1981); Trebla Chemical Company (Trebla), St. Louis MO (acquired in 1984); Allied Diagnostic Imaging Resources, Inc. (Allied), Norcross, GA (acquired in 1988); CPAC Europe, Herentals, Belgium (established in 1989); CPAC Italia, Gorgonzola, Italy (acquired in 1992); CPAC Africa, Pretoria, South Africa (acquired in 1997); CPAC Asia Imaging Products Limited, Chachoengsao, Thailand (established in 1998).

### **IMAGING -- COLOR PHOTOGRAPHIC**

There are three principal areas in which CPAC's Color Photographic business operates: Chemicals, Equipment, and Refining Services.

The Color Photographic Chemicals business includes the development, manufacture, packaging, distribution, marketing, and sales of branded and private-label processing chemicals used to develop photographic paper and film. These activities are carried out at Trebla Chemical Company and the four international Imaging business units.

Equipment is manufactured exclusively at CPAC Equipment Division, and involves the design, patent, fabrication, installation, and service of branded and private-label silver recovery and pollution control equipment, which helps photo

processors achieve environmental compliance by collecting silver (a by-product of the traditional wet silver halide photographic process) for reclamation and subsequent refining.

Color Photographic products and services are marketed in more than 100 countries through a combination of wholesale distributors, manufacturers' sales representatives, and company sales personnel.

Products are manufactured under the Trebla<sup>®</sup>, SilvPAC<sup>®</sup>, and CPAC<sup>®</sup> brands, as well as under private-label agreements, and are sold wherever photographs are wet processed (using liquid chemicals), primarily independent and chain photo labs; one-hour processing locations, such as mass market retailers; photo labs at universities and law enforcement agencies; and photo processing wholesalers.

Products are marketed domestically and in Mexico and South America by PRS, Inc., the exclusive sales and marketing organization for CPAC's Color Photographic products, to a national network of photographic distributors and directly to end-users. For each of the International business units, a sales force markets to distributors and end-users. The distributors buy CPAC's products and then market and sell them to photo processors, retaining the difference between the purchase and selling prices as profit. Each manufacturing business unit employs a team of technical support personnel to provide service to the distribution network and end-users. In addition, CPAC's Color Photographic businesses advertise their products in trade publications and exhibit at national and international industry trade shows.

Color Photographic currently accounts for 54% of CPAC Imaging sales. Since its practice is to ship goods upon receipt of customer orders, Color Photographic does not generally have a material backlog of orders for its products.

In January 2002, CPAC Inc. purchased a 19% minority equity interest in TURA AG, a German manufacturer and supplier of photographic paper and film emulsion products and wide-format inkjet printing consumables. Through this expansion of an existing relationship, each company's core products are now sold through each other's respective distribution channels. In April 2003, CPAC, Inc. increased its minority equity investment in TURA AG to 40%.

## **HEALTH CARE**

There are three principal areas in which CPAC's Health Care business operates: Chemicals, Equipment, and Refining Services.

The Health Care Chemicals business is involved with the development, manufacture, packaging, distribution, marketing, and sales of branded and private-label wet processing chemicals used to develop medical and dental x-ray film. Dental x-ray film was introduced to the line in FY '03. These activities are carried out at Allied Diagnostic Imaging Resources, Inc., as well as two international manufacturing plants.

Health Care Equipment, both branded and private label, involves the design, patent, fabrication, installation, and service of silver recovery equipment and chemical automixers for medical, dental, chiropractic, veterinary, and podiatry practices; illuminators (light boxes) for viewing x-ray film; and dry-heat sterilizers and portable and stationary vacuum equipment (evacuators) for dental practices. This equipment is manufactured exclusively at CPAC Equipment Division.

Health Care products, sold under the Autex<sup>®</sup>, RediChem<sup>®</sup>, SilvPAC<sup>®</sup>, and CPAC<sup>®</sup> brands as well as under private-label agreements, are marketed to radiology, dental, and niche health care markets, and are used wherever x-ray film is wet processed. This includes radiology practices including mammography clinics; dental practices and clinics; hospitals; and, to a lesser extent, veterinary, chiropractic, and podiatry practices.

A national sales force markets products to health care products distributors, to group purchasing organizations (GPO's), and directly to end-users. These distributors and GPO's buy CPAC's Health Care products and then market and sell these products to health care providers, retaining the difference between the purchase and selling prices. Each manufacturing business unit also employs a team of technical support personnel to provide service to the distribution network and end-users. In addition, CPAC Imaging exhibits its products at national and international industry trade shows.

Health Care Imaging currently accounts for 38% of CPAC Imaging sales. Since its practice is to ship goods upon receipt of customer orders, Health Care does not generally have a material backlog of orders for its products.

## **GRAPHIC ARTS**

CPAC's Graphic Arts business operates in two principal areas: Chemicals and Equipment.

The Graphic Arts Chemicals business is involved with the development, manufacture, packaging, distribution, marketing, and sales of branded and private-label wet processing chemicals used to develop prepress film and plates used in printing facilities. These activities are carried out at Allied Diagnostic Imaging Resources, Inc., as well as two international manufacturing plants.

Graphic Arts Equipment, both branded and private label, involves the design, patent, construction, installation, and service of silver recovery and pollution control equipment and chemical mixers for commercial and in-plant printers, and service bureaus. This equipment is manufactured exclusively at CPAC Equipment Division.

Graphic Arts products, sold under the Allied<sup>®</sup>, SilvPAC<sup>®</sup> and CPAC<sup>®</sup> brands as well as under private-label agreements, are marketed to commercial and in-plant printing markets and are used wherever film or plates are wet processed, primarily printers of newspapers, magazines, packaging, and labels, and service bureaus.

A national sales force of manufacturer's representatives markets products to Graphic Arts products distributors; to group purchasing organizations (GPO's); and directly to end-users. The distributors and GPO's buy and resell CPAC's Graphic Arts products, retaining the difference between the purchase and selling prices as profit. Each manufacturing business unit employs a team of technical support personnel to provide service to the distribution network and end-users. In addition, CPAC exhibits its products at national trade shows for the Graphic Arts industry.

Graphic Arts Imaging currently accounts for 8% of CPAC Imaging sales. Since its practice is to ship goods upon receipt of customer orders, Graphic Arts does not generally have a material backlog of orders for its products.

## **COMPETITION**

### **CPAC Imaging**

#### ***COLOR PHOTOGRAPHIC***

CPAC's Imaging Color Photographic business competes with regional, national and international Imaging companies. The CPAC Imaging Segment develops, manufactures, packages, markets and distributes liquid chemicals for developing silver halide photographic film and paper; silver recovery and pollution control equipment and supplies; and provides silver refining services. Through its relationship with TURA AG, photographic film and paper are also part of the product line.

Color Photographic products are used wherever photographs are wet processed, primarily independent and chain photo labs; one-hour processing locations such as mass market retailers; photo labs at universities and law enforcement agencies; and photo processing wholesalers.

The domestic and international markets for the Company's branded products are highly competitive. Competitors range in size from large, highly diversified companies to small, specialized producers. Direct competitors for Color Photographic chemicals include companies such as Eastman Kodak Company, Fuji Hunt Photographic Chemicals, and Champion Photochemistry Ltd. Direct competitors for silver recovery, silver refining services, and pollution control equipment include Academy Corp. and Hallmark Refining Corp.

The Color Photographic industry continues to introduce new products and services, especially in digital imaging. Some digital conversion has occurred in photo processing labs, but primarily in developed countries. This has had some impact on CPAC's sales in the U.S., but management believes there is great potential for traditional silver halide processes in emerging overseas markets. CPAC, Inc.'s recent minority equity investment in TURA AG provides increased access to these customers.

In Color Photographic, the Company seeks to improve product performance and ease of use, increase processing efficiency, and improve the ability of its customers to stay in compliance with local environmental regulations. Management believes that technological innovation, convenience, high product performance, and quality and timeliness of technical support and service are its competitive advantages in Color Photographic markets worldwide.

#### ***HEALTH CARE***

CPAC's Imaging Health Care business develops, manufactures, packages, markets and distributes liquid chemicals for developing silver halide radiographic film, chemical automixers; silver recovery and pollution control equipment and supplies; and provides silver refining services. Additional products include illuminators for viewing medical x-rays, dry-heat instrument sterilizers used in dental practices; and dental evacuation units.

Health Care Imaging products are used wherever x-ray film is wet processed or viewed, such as radiology labs and hospitals, and in dental practices where instrument sterilization and dental evacuation is required.

The markets for the Company's branded products are highly competitive. Direct competitors for Health Care chemicals include companies such as Eastman Kodak Company, Thatcher Company, White Mountain Imaging, and H.R. Simon and Company. White Mountain and Eastman Kodak Company compete with CPAC for market share of chemical automixers. Direct competitors for silver recovery and pollution control equipment include USI International, Inc. and Metafix. For silver refining services, CPAC Health Care Imaging competes directly with Hallmark Refining Corp. and Academy Corp. Competitors in x-ray illuminators are MAXANT and Wolf X-Ray Corporation. CPAC competes directly with Wayne Metal Products, Inc. and indirectly with Dentrionix, Inc. for dry heat sterilizers. DentaleZ, Inc. is a competitor in dental evacuation units.

There is continued consolidation among Health Care imaging providers to consolidate their buying power by working with or joining group purchasing organizations (GPO's). In this environment, CPAC's businesses must aggressively compete for GPO contracts that provide the most favorable conditions to the Company.

The Health Care Imaging industry continues to evolve, driven primarily by increased demand for digital products and services. Digital conversion is occurring in radiology and dental practices at a faster rate than in Color Photographic, but again, primarily in the U.S. This has impacted CPAC's sales in the U.S., but management believes there is still significant potential for traditional silver halide processes in the U.S. and in emerging markets.

In Health Care Imaging, the Company seeks to improve product performance, increase processing efficiency, broaden its product offering, and improve the ability of its customers to stay in compliance with local environmental regulations. Management believes that customer care, quality, ease-of-use, reliability, and technical support are its competitive advantages in Health Care Imaging markets worldwide.

### ***GRAPHIC ARTS***

CPAC's Imaging Graphic Arts business develops, manufactures, packages, markets and distributes liquid chemicals for developing graphic arts film and printing plates; chemical automixers; silver recovery and pollution control equipment and supplies; and provides silver refining services.

Graphic Arts Imaging products are used in facilities such as commercial printers, service bureaus, in-plant printers, newspapers, magazines, packaging printers, and the like.

The markets for the Company's branded products are highly competitive. Direct competitors for Graphic Arts chemicals include companies such as Kodak Polychrome Graphics and Agfa-Gevaert Group. Konica Graphic Imaging USA and Fuji compete with CPAC for market share of chemical automixers. Direct competitors for silver recovery and pollution control equipment include X-Rite, Inc. and USI International, Inc. Graphic Arts processes that do not use silver halide film (computer-to-plate processes) require a different treatment of effluent for environmental compliance. CPAC believes its private-label equipment serves the majority of customers in this niche market. For silver refining services, CPAC Graphic Arts Imaging competes directly with Hallmark Refining Corp. and Academy Corp.

The Graphic Arts Imaging industry continues to evolve, driven primarily by increased demand for digital products and services. Digital conversion is occurring in printing facilities at a slower rate than in Color Photographic, but again, primarily in the U.S. This has not significantly impacted CPAC's sales in the U.S. Management believes it can provide enhanced products to serve this market and sees graphic arts as a growth area.

In Graphic Arts Imaging, the Company seeks to improve product performance, increase processing efficiency, broaden its product offering, and improve the ability of its customers to stay in compliance with local environmental regulations. Management believes that product innovation, high product quality, compatibility with all graphic arts films, competitive pricing, and superior technical support and service are its competitive advantages Graphic Arts Imaging markets worldwide.

### **EMPLOYEES**

At March 31, 2003, the Company employed 576 people with 367 working in the Fuller Brands Segment, 191 in the CPAC Imaging Segment, and 18 assigned to the CPAC Corporate staff.

Effective May 1, 1986, the Company established a Profit Sharing and Retirement Plan under Section 401(k) of the Internal Revenue Code. This plan covers all eligible employees of CPAC, Inc. and its domestic subsidiaries. Subject to certain qualifications (employees must be over 21 years of age), the plan has the following features:

- (a) Contributions to the plan may be made for each plan year out of current or accumulated earnings to all eligible employees in such amounts as the Board of Directors may, in its discretion, determine. (To date, no discretionary payments have been made.)
- (b) The Company will match each contribution made by a plan participant for the plan year in an amount equal to \$0.50 for each \$1.00 of participant contribution. While a participant may contribute up to 15% of compensation to the plan each year, the Company will limit matching contributions to 3% of compensation.

The Company has appointed Manning & Napier Advisors, Inc., Rochester, New York; as Investment Managers and First Tier Bank and Trust, Olean, New York; as Trustee of the plan.

Effective January 1, 2000 the Company adopted a non-qualified deferred compensation plan for certain key executives of the Company. Contributions to the plan consist of "excess" 401(k) deferrals and selected percentages of salaries and bonuses with a maximum individual deferral of \$100,000 per year. No matching contribution by the Company is required. Compensation deferred will be invested by the Company in various investment grade "pooled accounts" on behalf of the participants.

## **Item 2. PROPERTIES.**

CPAC, Inc. owns the land and building in Leicester, New York, where the offices of the Corporate staff and manufacturing operations of the Equipment Division are housed. This plant is located on 4.2 acres and consists of a number of buildings, comprising a total of 30,330 sq. ft.

Allied's main plant and headquarters, located in Norcross, Georgia, are approximately 84,000 sq. ft. The facilities are leased until August 31, 2004. As announced on May 28, 2003, the Company will be consolidating its domestic manufacturing of imaging chemicals into its Norcross, Georgia, facility during fiscal 2004. This will involve moving the production of Trebla Chemical Company photochemicals from its 40,000 sq. ft. facility in St Louis, Missouri, to Allied's Norcross, Georgia, facility at which time it is anticipated that the Company will attempt to sell the Trebla facility. Trebla also maintains an adjacent 35,000 sq. ft. warehouse and office space for which utilization options are currently being explored. The Company is presently operating under a ten-year lease arrangement for this space, which commenced in October 2001, with a five-year termination clause.

CPAC Europe, N.V. owns approximately 5 acres of land in Industriepark Herentals (near Antwerp), Belgium. The building, which is 43,900 sq. ft., has a mortgage outstanding on the property.

After moving from its previously leased site in Milan, Italy, in March 2002, CPAC Italia leases 29,350 sq. ft. of office, warehousing, and industrial space in Gorgonzola, Italy. The lease on the present facility is for six years, with a six-year renewal option.

The Fuller Brush Company, Inc.'s 495,000 sq. ft. facility is located in Great Bend, Kansas. The single story building contains manufacturing, distribution, office facilities, and retail outlet store, and has access to both truck and rail transportation for shipping purposes. The facility was financed through an Industrial Revenue Bond, which is outstanding until 2009. Fuller Brush constructed a 105,000 sq. ft. North America Distribution Center (warehouse facility) on its property in Great Bend, Kansas, to accommodate Fuller's present inventory and to position Fuller Brush for future acquisitions and revenue growth. Fuller also leases seven third party retail outlet stores with two stores located in Missouri and one located in each of the following: Maine, Maryland, South Carolina, Tennessee, and Wisconsin. There is also an outlet store located at the Fuller Brush offices in Kansas.

Stanley Home Products division leases 6,800 sq. ft. of office space in Agawam, Massachusetts, under a five-year lease commitment, expiring in 2006.

CPAC Africa's 14,000 sq. ft. manufacturing facility is located in Pretoria, South Africa, and is leased under an arrangement expiring in December 2004.

CPAC Asia owns its 33,000 sq. ft. facility located in Chachoengsao, Thailand.

In management's estimation, all facilities are adequate to allow the Company to continue operations.

**Item 3. LEGAL PROCEEDINGS.**

No material litigation is pending to which the Registrant and/or its subsidiary(ies) is a party or of which property of the Registrant and/or its subsidiary(ies) is the subject.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The principal market on which the Registrant's Common Stock is being traded is the NASDAQ National Market System.

	<u>Fiscal 2003</u>				<u>Fiscal 2002</u>			
	<u>4th Q</u>	<u>3rd Q</u>	<u>2nd Q</u>	<u>1st Q</u>	<u>4th Q</u>	<u>3rd Q</u>	<u>2nd Q</u>	<u>1st Q</u>
<u>Price per share:</u>								
High	\$5.810	\$5.801	\$6.800	\$7.700	\$7.950	\$7.390	\$6.720	\$6.900
Low	4.850	4.370	5.200	6.050	6.000	5.570	5.500	5.150

The source of such quotations is from the Nasdaq-Amex Online<sup>SM</sup> service. Such online quotations reflect inter-dealer prices, without retail markup, markdown, or commission and may not necessarily represent actual transactions.

The approximate number of holders of record of the Common Stock of the Registrant as of March 31, 2003 is 1,610. This number includes only holders of record and beneficial holders who have disclosed that they are recordholders. Regular, quarterly dividends in the amount of \$0.07 a share have been paid in both years, 2003 and 2002.

The following table provides information as of March 31, 2003 concerning compensation plans previously approved by security holders and not previously approved by security holders.

**EQUITY COMPENSATION PLAN INFORMATION**

<u>Plan Category</u>	<u>Number of Securities to be issued upon exercise of outstanding options, warrants, and rights</u> <u>(a)</u>	<u>Weighted average exercise price of outstanding options, warrants, and rights</u> <u>(b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)]</u> <u>(c)<sup>(2)(3)</sup></u>
Equity compensation plans approved by security holders <sup>(1)</sup>	961,788	\$8.46	445,919
Equity compensation plans not approved by security holders	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>961,788</u>	<u>\$8.46</u>	<u>445,919</u>

- (1) Includes all options outstanding under the Executive Long-Term Stock Investment Plan, the 1991 Employees' Incentive Stock Option Plan, and the CPAC, Inc. Non-Employee Directors Stock Option Plan.
- (2) The CPAC, Inc. Non-Employee Directors Stock Option Plan allows annual, automatic grants for the purchase of 3,000 shares, per director, of the Company's common stock, on the first Friday after the Annual Meeting of Shareholders, at a price equal to the fair market value at that date.
- (3) A total of 445,919 option shares are available for future grant under the Executive Long-Term Stock Investment Plan. There are no shares available for future grant under the 1991 Plan.

**Item 6. SELECTED FINANCIAL DATA.**

	<b>For the Years Ended March 31,</b>				
	<b><u>2003</u><sup>(1)</sup></b>	<b><u>2002</u></b>	<b><u>2001</u><sup>(2)</sup></b>	<b><u>2000</u><sup>(2)</sup></b>	<b><u>1999</u><sup>(2)</sup></b>
Net Sales	\$ 95,290,340	\$ 97,779,098	\$104,544,036	\$112,146,601	\$115,390,753
Operating income <sup>(3)</sup>	3,723,831	5,007,481	8,045,535	9,486,963	10,258,028
Income before income tax expense	3,277,019	4,486,959	7,298,852	8,796,508	9,560,204
Income before cumulative effect of change in accounting principle	2,221,019	2,929,959	4,584,852	5,602,508	5,624,204
Net income (loss)	(4,060,232)	2,929,959	4,584,852	5,602,508	5,624,204
Net income (loss) per common share-basic:					
Before cumulative effect of change in accounting principle	0.44	0.56	0.83	0.92	0.83
Cumulative effect of change in accounting principle, net <sup>(4)</sup>	(1.24)	—	—	—	—
Basic net income (loss) per share	(0.80)	0.56	0.83	0.92	0.83
Net income (loss) per common share-diluted:					
Before cumulative effect of change in accounting principle	0.44	0.56	0.82	0.91	0.82
Cumulative effect of change in accounting principle, net <sup>(4)</sup>	(1.24)	—	—	—	—
Diluted net income (loss) per share	(0.80)	0.56	0.82	0.91	0.82
Total assets	68,390,290	75,958,895	77,221,170	76,808,296	76,901,667
Total long-term debt <sup>(5)</sup>	7,978,401	8,465,896	8,995,490	9,492,180	8,178,855
Cash dividends declared	1,426,080	1,454,697	1,558,331	1,609,169	875,569
Cash dividends per share <sup>(6)</sup>	0.28	0.28	0.28	0.26	0.13

- (1) In 2003 the Company adopted the non-amortization provisions of SFAS No. 142. As a result of the adoption, results for 2003 do not include certain amounts of amortization of goodwill that are included in the prior year's financial results. See Note 5 to the Company's consolidated financial statements for additional information.
- (2) In accordance with EITF 00-10, shipping and handling costs billed to customers have been reclassified to net sales, with no impact on operating or net income.
- (3) Income before interest expense (income) net and income tax expense.
- (4) Upon adoption of SFAS No. 142 in 2003, the Company recorded an impairment adjustment of \$6,281,251, net of tax. See Note 5 to the Company's consolidated financial statements for additional information.
- (5) Includes current maturities.
- (6) On June 7, 2000 the regular quarterly cash dividend was increased from \$0.065 to \$0.07 a share.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.****RESULTS OF OPERATIONS**

For purposes of financial reporting, the Company operates in two industry Segments: the Fuller Brands Segment, which is involved in developing, manufacturing, distributing, and marketing branded consumer and commercial cleaning and personal care products in North America and internationally, and the CPAC Imaging (Imaging) Segment, which includes the Company's color photographic, health care, and graphic arts imaging operations in the United States, Belgium, Italy, South Africa, and Thailand. The products of each Segment are manufactured and marketed both in the U.S. and in other parts of the world. Sales between Segments are not material.

**Net Sales and Net Income**

The Company's sales decreased 2.5% in 2003, as compared to 2002, and 6.5% in 2002 as compared to 2001.

For the Fuller Brands' Segment in 2003, net sales decreased 2% over 2002. The slowing of the Stanley Home Products division's business, whose net sales were down 10.7%, contributed to the decrease, as did Cleaning Technologies Group (CTG), whose net sales, despite operating in a difficult, price competitive environment, decreased only 1.3%. CTG

continued to be impacted as a result of lower Kmart business due to additional Kmart store closings. The Fuller Brush division's net sales were up 3% largely due to the successful program initiated with the QVC television home shopping business, which provided the division with a new sales distribution outlet. In 2002, the Fuller Brands' Segment net sales decreased 5.7% over 2001. This was primarily due to the decrease in Cleaning Technologies Group sales of almost 15%, due to the effects of the September 11, 2001 terrorist attacks and the reduction in Kmart business. In 2002, Stanley Home Products' slight sales decreases were offset by sales increases in the traditional Fuller Brush business.

For the Imaging Segment in 2003, net sales decreased 3.3% over 2002. The decrease was partially caused by a 13.2% decrease in net sales in the Company's domestic medical imaging business. This part of the imaging business continues to be impacted by the presence of digital imaging, as well as continued competition within its distribution network. While the Company's domestic photochemical imaging business' net sales were down less than 1%, this business continues to be impacted by the slowdown in picture taking in the U.S., as well as price competition. The Segment's net sales performance was favorably impacted by the growth in its foreign imaging businesses (See Foreign Operations Section). In 2002, net sales for the Imaging Segment decreased 7.6% over 2001. This decrease was largely the result of sales decreases in the Segment's domestic photochemical, medical imaging, and equipment manufacturing operations, mitigated by combined sales increases in the Segment's international operations. The Company's domestic operations in 2002 continued to be impacted by the competition in the North American market, as well as the business slowdown experienced, as a result of the U.S. recession, and September 11, 2001 terrorist attacks.

The Company's income before the cumulative effect of a change in accounting principle for the year ended March 31, 2003, decreased 29.8% as compared to the proforma net income for 2002 of \$3,161,959. The proforma net income for 2002 represents net income as if the non-amortization provisions of SFAS No. 142 had been applied in the prior year. Sales declines, the continuation of investments in sales and marketing programs, and the rebuilding of management teams in both Segments to position the Company when economic recovery begins, contributed to this decline. Proforma net income in 2002 decreased 34.4% over the proforma net income of \$4,820,852 in 2001, as both Segments' profits declined. In the Fuller Brands Segment, Stanley Home Products and Cleaning Technologies Group operations had sharp declines in profits, due to sales shortfalls outlined above, as well as continued investment in sales and marketing programs to stimulate the business. The traditional Fuller Brush business helped to mitigate this decline with strong earnings from their contract consumer and catalog/Internet business. In the Imaging Segment, all business' profits declined, with the exception of the Segment's Asian operations, led by its North American photochemical operation.

The Company adopted SFAS No. 142 during the first quarter of 2003 and recorded a one-time, non-cash expense of \$6,281,251, net of a tax benefit of 4,188,000, or \$1.24 per diluted share. The adjustment related to the Fuller Brands Segment's Cleaning Technologies Group (CTG) investment in fiscal 1998, whose goodwill was determined to be impaired, based on calculating the present value of future cash flows. CTG had been impacted by several factors, including continued, reduced operating performance. (See Footnote 5 in the consolidated financial statements). The net loss after the cumulative effect adjustment was (\$4,060,232) or (\$0.80) a diluted share.

### **Foreign Operations**

Combined net sales of the Company's foreign operations in Belgium, Italy, South Africa, and Thailand, after converting from local currencies to U.S. dollars, rose approximately \$1,148,000 or 8.9% in 2003 over 2002. The increase was primarily attributable to CPAC Europe and CPAC Asia, whose sales increased on a U.S. dollar basis, 15% and 9%, respectively (10% and 6% on a local currency basis, respectively). CPAC Europe's increase was largely as a result of increased photochemical paper sales, due in part to the Company's relationship with TURA AG, which has provided new sales opportunities. As disclosed elsewhere, CPAC in 2002 acquired a 19% share ownership in this German distributor, and subsequent to March 31, 2003, increased its investment to 40%. CPAC Asia's increase in 2003 over 2002 continues the growth exhibited in the Asian marketplace. Increases in gross U.S. dollars, after the impact of currency translation to a U.S. dollar basis, for CPAC Italia and Africa were relatively minor. Combined net sales of the Company's foreign operations in Belgium, Italy, South Africa, and Thailand increased \$450,000 or 3.8% in 2002 over 2001. This was primarily due to CPAC Asia whose net sales increased \$900,000 over 2001 levels. Combined net sales of CPAC Europe, Italia, and Africa decreased, where currency declines against the U.S. dollar impacted their translated results.

Combined pretax profits for the Company's foreign operations in 2003, after converting from local currencies to U.S. dollars, declined approximately \$193,000 or 16.8% over 2002. Expenses related to accounts receivable collection problems with distributor receivables at both CPAC Asia and CPAC Europe, resulted in an increase to the allowance for doubtful accounts in 2003 of approximately \$365,000, net of minority interest. CPAC Asia's difficulties, disclosed in the second and third quarterly 10-Q filings, resulted from a Japanese distributor, whereas CPAC Europe's difficulties resulted in an increase to its allowance for doubtful accounts in the fourth quarter of approximately \$0.01, primarily due to problems in Russia. CPAC Italia's start-up expenses in the first quarter, amounting to approximately \$38,000 relating to its move to a new manufacturing facility also impacted the year to date results. However, CPAC Africa's results for 2003 helped mitigate the

decline, as it experienced an approximate \$153,000 increase in pretax profit, net of minority interest, its best performance since being acquired in 1997.

In 2002, pretax profits for the four combined entities declined almost 14% due to currency pressures in Italy and South Africa, as well as continued investment in sales and marketing initiatives to attempt to maintain or increase revenues.

The Company has exposure to currency fluctuations and occasionally has utilized hedging programs (primarily forward foreign currency exchange contracts) to help minimize the impact of these fluctuations on results of operations. At March 31, 2003 no forward foreign currency exchange contracts were outstanding. The Company does not hold or issue derivatives for trading purposes and is not a party to leveraged derivative transactions. On a consolidated basis, foreign currency exchange losses are included in income or expense as incurred and are not material to the results of operations.

### **Gross Margins**

Gross margins (net sales less cost of sales expressed as a percentage of net sales) were 45.0%, 44.7%, and 43.7% for the years ended March 31, 2003, 2002, and 2001, respectively.

Gross margins in the Fuller Brands Segment increased to 50.3% in 2003, from 49.3% and 48.3% in 2002 and 2001, respectively. Improvements reflected the impact of the television home shopping business, which has higher gross margins (accompanied by higher selling and marketing costs), coupled with less volume of CTG's competitively priced national accounts business. The increase in 2002 as compared to 2001 was a result of product mix sold. Gross margins in 2004 will continue to be under pressure, if the Stanley Home Products and CTG sales declines continue, due to unabsorbed overhead problems that would be encountered in the Segment's Great Bend, Kansas, manufacturing facility. Numerous sales initiatives to place volume through the facility, as well as cost control programs, are being implemented to continue to guard against margin erosion. Competitive bidding situations for gaining or maintaining business in all divisions, however, will make this a challenging situation for 2004.

Gross margins in the Imaging Segment were 37.5% in 2003, as compared to 38.1% and 37.2% in 2002 and 2001, respectively. Lower margins at the Company's domestic photochemical Imaging operation due to continued, reduced volume (See Imaging Restructuring disclosure for further description), coupled with slightly lower margins experienced by the Company's foreign locations, due to pricing pressures encountered during the worldwide economic slowdown, contributed to the 2003 versus 2002 decline. The increase in 2002 versus 2001 was a result of strong margin improvement in several of the foreign operations in the early part of the fiscal year, although the worldwide economic slowdown prevented this improvement from being sustained. The Company is hopeful that the Imaging Restructuring plan to be implemented during 2004 will help to reduce redundant costs from domestic underutilized facilities and, coupled with continued strong growth in Asia, will help to maintain gross margins at present levels.

### **Selling, Administration and Engineering Expenses**

These expenses amounted to 40.5%, 38.9%, and 35.3% of net sales in 2003, 2002, and 2001, respectively.

In the Fuller Brands' Segment, 2003 selling, administrative, and engineering expenses were 44.4% versus 43.7% and 40.2% in 2002 and 2001, respectively. The increase in 2003 versus 2002 is partially a result of the increased sales through the television home shopping distribution channel, which has higher sales and marketing costs. In 2002 the increase over 2001 levels was a direct result of lower revenues, coupled with increased marketing and promotional expenses, in the Segment's Stanley Home Products to increase its direct selling business.

In the Imaging Segment, 2003 selling, administrative, and engineering expenses were 34.2% versus 32.9% and 28.9% in 2002 and 2001, respectively. The increase in 2003 over 2002 was partially a result of increasing foreign accounts receivable reserves, as well as flat expenses on decreasing revenues, in the Segment's domestic medical imaging operation. As described in the Imaging Restructuring disclosure, the Company is attempting to reduce duplicate operating costs, as a result of declining revenues in its domestic imaging operations and believes upon completion of the project, selling, administration and engineering expenses domestically, as a percentage of net sales, will be lower. The increase in 2002 over 2001 was largely caused by the continued decline in sales in the third and fourth quarter of 2002, without a corresponding reduction in spending.

### **Research and Development Expenses**

Research and development expenses, as a percentage of sales have remained relatively consistent at approximately 0.7% of net sales for 2003 and 0.6% for 2002 and 2001, respectively. The level of expense reflects the Company's emphasis of focusing on improving existing products or developing complimentary products, based on customer needs. For 2004 the Fuller Brands Segment's focus will be on continuing to develop new products to enhance its growing television shopping business, stimulate recruitment efforts in its direct selling business, as well as continuing to enhance CTG's commercial

cleaning product offerings to compete in the highly-competitive janitorial sanitation business. In the Imaging Segment, continued effort will be placed on developing easy-to-use prepackaged, chemical formulations and continuing to develop innovative wrap-around-programs, involving chemistry, paper, and equipment for use in domestic and overseas imaging markets. These efforts are not expected to increase research and development expenses, as a percentage of sales, significantly from prior periods.

### **Interest Expense**

Net interest expense (interest expense less interest income) declined 14.2% in 2003 versus 2002, largely as a result of net debt reduction at the Company's foreign operations and continued lower debt interest rates both domestically and overseas. While cash and equivalents increased in 2003 versus 2002, lower interest rates on invested cash caused interest income to decline. Net interest expense declined 30.3% in 2002 versus 2001 caused by a combination of lower interest rates and debt reduction in 2002. The decline in interest income was less severe due to a strong cash balance early in 2002, offsetting declining interest rates.

### **Income taxes**

The provision for income taxes on income before the cumulative effect of change in accounting principle was 32.2% in 2003, as compared to 34.7% and 37.2% in 2002 and 2001, respectively. The continued reduction in the Company's effective tax rate in 2003 resulted from a lower provision from its Italian operation, who received certain tax credits and benefits related to its facility relocation, as well as the utilization of net operating loss carryforwards at its African operation. Similar to 2002, the effective rate shows the benefits of the seven-year tax holiday existing for the Company's Asian subsidiary, as well as lower state taxes due to reduced domestic earnings. Since the Company continues to receive the tax holiday into fiscal 2007, CPAC Asia will continue to significantly impact the future effective rate, depending on its profitability. Although it is expected that the Italian operation's effective rate may increase in 2004 and state taxes may rise as domestic earnings increase, the Company should continue to experience tax benefits in Africa, which may help to mitigate the increase in the effective rate.

In conjunction with the SFAS No. 142 goodwill adjustment recognized by the Company in the first quarter of 2003 amounting to \$10,469,251, a tax benefit of \$4,188,000 was recorded. This deferred asset is expected to be realized over the next nine years, as the goodwill is deducted for income tax purposes.

### **Imaging Restructuring**

On May 28, 2003 the Company announced that it was consolidating its domestic manufacturing of imaging chemicals into its Norcross, Georgia, facility and that it would be curtailing manufacturing at its St. Louis, Missouri, facility sometime during the second quarter of the fiscal year ending March 31, 2004. The physical move of manufacturing and related equipment is expected to begin in the second quarter and complete consolidation is expected early in the Company's fourth quarter. The majority of the 26 employees at its St. Louis facility will be given severance packages upon curtailment of operations. Severance and costs of relocating the manufacturing operation are estimated to total approximately \$500,000 net of tax (\$0.10 a diluted share) and will be recognized in 2004.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has historically financed its operations and acquisitions with internally generated cash flows, supplemented with outside borrowings. The following table summarizes CPAC, Inc.'s consolidated cash flow information (in thousands):

	<b><u>For the Years Ended March 31,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Cash provided by (used in):			
Operating activities	\$ 6,153	\$ 6,620	\$ 9,865
Investing activities	(1,662)	(3,569)	(1,399)
Financing activities	(2,635)	(3,916)	(4,040)
Currency impact on cash	19	(3)	(3)
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,875</u>	<u>(\$ 868)</u>	<u>\$ 4,423</u>

### **Net cash provided by (used in) operating activities**

Consolidated net cash provided by operating activities decreased in 2003 as compared to 2002 primarily due to lower income before cumulative effect of change in accounting principle, caused by lower Imaging Segment profits. Consolidated net cash provided by operating activities decreased in 2002, as compared to 2001, due primarily to the decline in net income in both Segments.

### **Net cash provided by (used in) investing activities**

Consolidated net cash used in investing activities decreased in 2003 versus 2002, due to the Company's 19% equity investment in TURA AG in 2002. Property, plant and equipment additions in 2003 were relatively consistent with 2002 levels, with the largest expenditure related to CPAC Italia's move and improvements to their new manufacturing facility in Gorgonzola. Cash used in investing activities in 2004 will be impacted by the Company's first quarter additional 21% \$1,300,000 investment in TURA AG. Consolidated net cash used in investing activities increased in 2002 over 2001, primarily due to the Company's initial 19% investment of \$1,891,000 in TURA AG.

### **Net cash provided by (used in) financing activities**

Consolidated net cash used in financing activities decreased in 2003 over 2002. One of the contributors to the decrease was the reduction in common stock shares repurchased during the year, and reduced debt paydowns as a result of lower debt levels in 2003. In 2002 consolidated net cash used in financing activities decreased versus 2001, due to lower debt reduction payments (\$235,000), lower dividends due to less shares outstanding (\$104,000), offset by increased stock repurchases (\$215,000) versus the prior year.

### **Working Capital Ratios**

Working capital is the excess of current assets over current liabilities. The working capital ratio is calculated by dividing current assets by current liabilities.

	<b><u>For the Years Ended March 31,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Working capital (in thousands)	\$31,954	\$30,336	\$31,503
Working capital ratio	4.28 to 1	3.82 to 1	3.73 to 1

In 2003 the Company continued to build working capital, despite lower sales and profits, due to tight cash controls, aggressive receivable collections, implementation of inventory reduction goals within the Fuller Brands Segment, and reduction in working capital borrowings at CPAC Asia, as a result of continued strong cash flow.

During fiscal 2002, despite the shortfall in sales and profits, the Company's Fuller Brands Segment continued to provide positive cash flow, allowing the consolidated Company to continue its stock repurchase programs, acquire capital assets where needed, and fund the Imaging Segment's investment in TURA AG.

During fiscal 2001, reductions in capital spending (\$1.7 million) and reductions in stock repurchases (\$4.2 million) helped to offset lower earnings (\$1 million) and contributed to increased working capital and an improvement in the working capital ratio.

During June 2002, the Company renewed its existing line of credit agreement (Agreement), with a new two-year agreement, maturing on October 31, 2004. The Agreement continues the maximum borrowing capability of \$20,000,000, with interest at LIBOR plus 1.25% to 2%, based on funded debt to EBITA parameters. It also requires meeting various financial covenants with which the Company was in compliance at March 31, 2003. The Agreement also contains a \$6.2 million letter of credit facility, which the Company uses to collateralize the Fuller Brands' Industrial Revenue Bonds.

The Company's majority-owned subsidiary CPAC Asia Imaging Products Limited has a line of credit with an international bank of 20 million baht (approximately \$464,000 based on the year-end conversion rate in Thailand). Interest is payable at the bank's announced prime rate in Thailand, which was 8.75% at March 31, 2003, with the line collateralized by a standby letter of credit (LOC) guaranteed by CPAC, Inc. CPAC Asia Imaging Products Limited had borrowings against the line of credit of \$13,107 at March 31, 2003.

Management believes that its existing available lines of credit and cash flows from operations should be adequate to meet normal working capital needs, based on operations as of March 31, 2003. It is expected that additional financing may be necessary to allow the Company to pursue additional acquisitions.

### **Asset Turnover Ratios**

	<b><u>For the Years Ended March 31,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
(1) Receivables-days outstanding	47.8 days	51.4 days	51.3 days
(2) Annual inventory turns	3.0 times	3.1 times	3.2 times

Receivable days outstanding improved in 2003 versus 2002, helped in part by improved collection efforts with the Fuller Brush Segment. Receivable days outstanding in 2002 remained consistent with 2001, despite the decline in sales.

Inventory turns decreased slightly in 2003, due to lower net sales than anticipated. Inventory turns decreased slightly in 2002 as compared to 2001, due to an increase in inventory levels over the last three to six months of fiscal 2002.

### **Profitability Ratios**

Operating return on net sales is the result of dividing operating income by net sales. Net income on net sales is calculated by dividing net income by net sales. Net income to net worth is calculated by dividing net income by the amount of ending shareholders' equity.

	<b><u>For the Years Ended March 31,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Operating return on net sales	4%	5%	8%
Net income (loss) on net sales	(4%)	3%	4%
Net income to net worth	(9%)	6%	9%

The decrease in operating return on net sales in 2003 as compared to 2002, is largely a function of the Imaging Segment's reduced sales with flat operating costs, higher unallocated Corporate overhead, mitigated by an improvement in the Fuller Brands Segment operating income led by its entrée into the television home shopping business. The negative return on net income (loss) on net sales and net income (loss) to net worth for 2003 is a function of the \$6.3 million cumulative effect of a change in accounting principle charge taken upon adoption of SFAS No. 142 in the Company's first quarter. The decrease in operating return on net sales, net income on net sales, and net income to net worth in 2002, as compared to 2001, is a result of the reduction in sales and earnings in both the Fuller Brands and Imaging Segments.

### **Leverage Ratios**

Debt to debt-plus-equity is calculated by dividing all liabilities by the sum of all liabilities plus shareholders' equity. Total debt to equity is calculated by dividing all liabilities by the amount of shareholders' equity.

These ratios measure the extent to which the Company has been financed by debt and are an important measure to our lending institutions.

	<b><u>For the Years Ended March 31,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Debt to debt-plus-equity	32%	32%	32%
Total debt to equity	0.47 to 1	0.46 to 1	0.47 to 1

In 2003 debt to debt plus equity and debt to equity remained relatively constant versus 2002, despite the net loss incurred by the Company, as a result of the SFAS No. 142 adoption and related adjustment of \$6.3 million, net of tax. Also helping to minimize the decline was the fact that total liabilities decreased, while equity decreases slowed due to the reduction of the Company's stock buyback program. The ratios remained relatively consistent in 2002 as compared to 2001, with continued debt paydown improving the debt to equity ratio.

### **Contractual Cash Obligations (amounts in thousands)**

The following table summarizes information about the Company's consolidated contractual cash obligations and other commercial commitments (in thousands), as of March 31, 2003, and the effect such obligations are expected to have on its consolidated liquidity and cash flow in future periods:

CPAC, Inc. Consolidated	<b><u>Payments Due by Period</u></b>				
	<b><u>Total</u></b>	<b><u>Less than 1 year</u></b>	<b><u>1 to 3 years</u></b>	<b><u>4 to 5 years</u></b>	<b><u>After 5 years</u></b>
<b><u>Contractual Obligations</u></b>					
Long-term debt	\$ 7,978	\$ 736	\$ 726	\$ 181	\$ 6,335
Operating leases	4,185	1,245	1,447	818	675
Other long-term obligations	<u>2,275</u>	<u>325</u>	<u>650</u>	<u>650</u>	<u>650</u>
Total contractual cash obligations	<u>\$ 14,438</u>	<u>\$ 2,306</u>	<u>\$ 2,823</u>	<u>\$ 1,649</u>	<u>\$ 7,660</u>

	<b>Amount of Commitment Expiration Per Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>After 5 years</b>
Unused credit facilities <sup>(1)(2)</sup>	\$ 20,451	\$ 0	\$ 20,451	\$ 0	\$ 0
Standby letters of credit	160	0	160	0	0
Total commercial commitments	<u>\$ 20,611</u>	<u>\$ 0</u>	<u>\$ 20,611</u>	<u>\$ 0</u>	<u>\$ 0</u>

- (1) As of March 31, 2003, the Company had no borrowings against its \$20 million line of credit with its primary domestic lending institution.
- (2) As of March 31, 2003, the Company's majority owned subsidiary CPAC Asia Imaging Products Limited had borrowed approximately \$13,000 against its \$464,000 line of credit, leaving \$451,000 of available borrowing capacity.

The Company believes that these liabilities have no material impact on CPAC, Inc.'s liquidity and capital resources. As of the date of the report, CPAC, Inc. had no other commercial commitments, which may impact its capital resources and liquidity.

In the absence of unforeseen developments, CPAC, Inc. believes that it has sufficient liquidity to fund its operating expenses and other operational requirements at least for the 12 months following the date of this report.

### **Critical Accounting Policies and Estimates**

The accompanying consolidated financial statements and notes to financial statements contain information that is pertinent to management's discussion and analysis of financial condition and results of operations. The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates and assumptions.

CPAC, Inc. believes that the critical accounting policies and estimates discussed below involve additional management judgement due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue, and expense amounts.

### **Revenue Recognition**

The Company recognizes revenue when it is realized or realizable and earned, based on terms of sale with the customer. This occurs primarily when the product has been shipped and legal title and all risks of ownership have been transferred, sales price is fixed and determinable, and collectibility is reasonably assured. The terms and arrangements vary by product categories, owing to the different nature of the customers, distribution channels, and products. The Company records estimated reductions to revenues for customer incentive programs offered including cash discounts, volume discounts, rebates, and specifically established customer product return programs. If market conditions were to change, the Company may take actions to expand these customer offerings, which may result in incremental reductions to revenue.

### **Allowance for Doubtful Accounts**

The Company regularly reviews its customer accounts and records specific provisions for doubtful accounts to reduce the related receivable to the amount that is estimated to be collectible. The Company also records provisions for doubtful accounts based on a variety of factors including the Company's historical experience, current economic conditions, and other adverse industry or market trends. If circumstances related to specific customers were to change, the Company's estimates with respect to the collectibility of the related receivables could be further adjusted. The Company considers all available information in its quarterly assessments of the adequacy of the reserves for uncollectible accounts. The Company recorded an expense provision of \$778,000, \$259,000, and \$117,000 to the consolidated statements of operations for the years ended March 31, 2003, 2002, and 2001, respectively.

### **Inventory Reserves**

The Company values its inventory at the lower of cost or market. As part of this valuation, reserve provisions are made to reduce inventory carrying values based on estimates of what is excess, slow moving, or obsolete, or for inventory whose carrying value is in excess of net realizable value. These provisions are based on current assessments about future demands, market conditions, and related management initiatives. If in the future, the Company determines that market conditions and actual demands are less favorable than those projected; and, therefore, inventory is overvalued, the Company will be required to further reduce the carrying value of the inventory and record an expense at the time the determination is made. The Company recorded an expense provision of \$253,000, \$130,000 and \$788,000, for excess, slow-moving, and obsolete inventory to the consolidated statements of operations for the years ended March 31, 2003, 2002, and 2001, respectively.

### **Valuation of Long-Lived Assets**

The Company assesses the carrying value of its identifiable intangible assets, long-lived assets, and goodwill whenever events or changes in circumstances indicate that the carrying amount of the underlying asset may not be recoverable, or in the case of goodwill, at least annually. Certain factors, which may occur and indicate that an impairment exists, include, but are not limited to, significant underperformance relative to actual historical or projected future operating results, significant changes in the manner of the company's use of the underlying assets, and significant adverse industry or market economic trends. In the event that the carrying value of assets are determined to be unrecoverable, the company would estimate the fair value of the assets or reporting unit and record an impairment charge for the excess of the carrying value over the fair value. Events or changes in circumstances could occur that may create underperformance relative to projected future cash flows, which could create future impairments. The Company's policy is consistent with current accounting guidance as prescribed by SFAS No. 142, "Goodwill and Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

### **Impact of Inflation**

For the last several years, inflation has not had a material adverse effect on the Company's costs. However, due to the competitive sales pressures in both the Fuller Brands and Imaging Segments, any inflation experienced, has generally not been able to be passed on to the customer. Programs stressing productivity improvements, as well as group purchasing efforts should continue to offset potential negative impacts of inflation in the near future.

### **Environmental Contingency**

The Company expects to soon receive final acceptance from the state of Kansas for remediation work performed in the mid to late 1990's, connected with the Company's 1995 acquisition of the Fuller Brush Company, Inc. Remediation efforts for the last several years have consisted of minimal monitoring efforts. Management does not believe that the Company will incur any significant, future costs related to this project.

### **New Accounting Standards**

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to implement SFAS No. 143 on April 1, 2003, although adoption will have no impact on its consolidated financial position or results of operations.

On April 1, 2002, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was effective for the Company. The adoption of this pronouncement did not have any effect on the Company's financial position, results of operations, or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, amendment of FASB Statement No. 13, and Technical Corrections," was issued. SFAS No. 145 rescinds SFAS No. 4 and SFAS No. 64 related to classification of gains and losses on debt extinguishment and amends SFAS No. 13 with respect to sales-leaseback transactions. The pronouncement was effective for the Company April 1, 2002 and had no impact on the Company's reported results of operations and financial position.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," and requires companies to recognize a liability for costs associated with an exit or disposal activity when the liability is incurred, as opposed to the date of an entity's commitment to an exit plan (as required under EITF No. 94-3). The pronouncement, effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application allowed, did not impact the Company's reported results of operations and financial position for the year ended March 31, 2003. As described under Imaging Restructuring, provisions of this pronouncement will apply to results of operations and financial position of the Company starting in 2004, related to the Company's consolidation of its domestic imaging manufacturing operations.

In December 2002, SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure-an amendment of FASB No. 123" was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock based employee compensation. It also amends disclosure requirements of SFAS No. 123 requiring disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of this statement are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. At this time, the pronouncement is not expected to have any impact on

the Company's reported results of operations and financial position as the Company continues to account for its stock compensation plans under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees".

In November 2002, FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. At this time, the Company does not expect the recognition and measurement provisions of FIN 45 to have a material effect on future interim or annual financial statements. The disclosure requirements are effective for the Company's financial statements for the year ended March 31, 2003. In that regard, the Company has the following significant guarantees:

(a) A standby letter of credit issued by Bank of America for \$6.2 million is used by the Company to collateralize the Fuller Brands' Industrial Revenue Bonds.

(b) A standby letter of credit issued by HSBC Bank is used by the Company to guarantee the Company's majority-owned subsidiary CPAC Asia Imaging Products Limited's 20 million baht line of credit (approximately \$464,000 based on the fourth quarter conversion rate in Thailand). At March 31, 2003, the outstanding line of credit borrowings were \$13,107.

(c) Standby letters of credit issued by HSBC Bank are used by the Company to guarantee the Company's majority-owned subsidiary CPAC Asia Imaging Products Limited's term note obligations. These obligations totaled approximately \$918,000 at year-end.

In January 2003, FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" was issued. The Interpretation provides guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. At this time, the Company does not believe the Interpretation will have an impact on the Company's future reported results of operations and financial position.

### **Forward-Looking Statements**

This Form 10-K contains forward-looking statements that are based on current expectations, estimates, and projections about the industries in which the Company operates, as well as management's beliefs and assumptions. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions ("Future Factors") that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

The Future Factors that may affect the operations, performance and results of the Company's business include the following:

- a. general economic and competitive conditions in the markets and countries in which the Company operates, and the risks inherent in international operations;
- b. the level of competition and consolidation within the commercial cleaning supply industry;
- c. the impact of Kmart Corporation's Post-Chapter 11 business operations on Cleaning Technologies Group's business;
- d. the effect of changes in the distribution channels for Fuller Brands;
- e. the ability to increase volume through the Great Bend manufacturing plant to absorb fixed overhead;

- f. the ability to increase recruitment of independent sales representatives for the Stanley Home Products business;
- g. the level of demand for the Company's Imaging products and the impact of digital imaging;
- h. the ability to leverage the Company's increased investment in TURA AG to produce increased sales of photochemicals and paper;
- i. the strength of the U.S. dollar against currencies of other countries where the Company operates, as well as cross-currencies between the Company's operations outside of the U.S. and other countries with which they transact business;
- j. changes in business, political and economic conditions, and the threat of future terrorist activity in the U.S. and other parts of the world and related U.S. military action; and
- k. changes in accounting standards promulgated by the Public Accounting Oversight Board, the Financial Accounting Standards Board, the Securities and Exchange Commission or the American Institute of Certified Public Accountants, which may require adjustments to financial statements.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company does not intend to update forward-looking statements.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The Company's exposure to changes in interest rates results from investing and borrowing activities. At March 31, 2003, the Company has no interest rate swap agreements in place, which would limit its exposure to upward movements in interest rates. In the event interest rates were to increase or decrease by 1%, the effect on interest expense would not be material compared to that which would result if rates remained constant and at rates which existed at March 31, 2003.

Approximately 86% of the Company's sales are denominated in U.S. dollars. The remainder of the Company's sales are denominated in Euros, African Rand, and Thai baht. A 10% change in the value of these currencies would impact the Company's revenues by approximately 1%. The Company monitors the relationship between the U.S. and its foreign currencies on a continuous basis and adjusts sales prices for products and services sold in those currencies as appropriate safeguards to the profitability of sales recorded in those currencies.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**Report of Independent Accountants**

To the Board of Directors and Shareholders of  
CPAC, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 16(a)(1) on page 42 present fairly, in all material respects, the financial position of CPAC, Inc. and its subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 16(a)(2) on page 42 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, as of April 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets".

/s/ PricewaterhouseCoopers LLP  
**PricewaterhouseCoopers LLP**

Rochester, New York  
May 23, 2003

## CPAC, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS MARCH 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 9,866,539	\$ 7,991,834
Accounts receivable (net of allowance for doubtful accounts of \$1,527,000 and \$868,000 at March 31, 2003 and 2002, respectively)	11,721,979	13,217,923
Inventory, net	17,775,575	17,555,303
Prepaid expenses and other current assets	1,362,312	1,208,484
Deferred tax assets, current	<u>957,790</u>	<u>1,115,790</u>
Total current assets	41,684,195	41,089,334
Property, plant and equipment, net	17,010,568	17,690,540
Goodwill	192,426	10,661,677
Intangible assets (net of amortization of \$1,314,973 and \$1,193,338 at March 31, 2003 and 2002, respectively)	1,073,967	1,260,562
Deferred tax assets, long-term	3,597,309	325,000
Other assets	<u>4,831,825</u>	<u>4,931,782</u>
	<u>\$ 68,390,290</u>	<u>\$ 75,958,895</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Current portion of long-term debt	\$ 736,197	\$ 1,061,175
Accounts payable	5,016,870	4,758,153
Accrued payroll and related expenses	1,615,488	1,679,952
Accrued income taxes payable	84,189	621,575
Other accrued expenses and liabilities	<u>2,277,772</u>	<u>2,632,767</u>
Total current liabilities	9,730,516	10,753,622
Long-term debt, net of current portion	7,242,204	7,404,721
Other long-term liabilities	4,834,438	5,768,322
Shareholders' equity:		
Common stock, par value \$0.01 per share; Authorized 30,000,000 shares; Issued 5,030,519 shares and 5,208,806 shares at March 31, 2003 and 2002, respectively	50,305	52,088
Additional paid-in capital	9,605,984	10,538,823
Retained earnings	38,288,530	43,774,842
Accumulated other comprehensive income (loss)	<u>(771,499)</u>	<u>(1,743,335)</u>
	47,173,320	52,622,418
Less: Treasury stock, at cost, 85,307 shares at March 31, 2003 and 2002, respectively	<u>(590,188)</u>	<u>(590,188)</u>
Total shareholders' equity	<u>46,583,132</u>	<u>52,032,230</u>
	<u>\$ 68,390,290</u>	<u>\$ 75,958,895</u>

The accompanying notes are an integral part of the financial statements.

**CPAC, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED MARCH 31, 2003, 2002 AND 2001**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 95,290,340	\$ 97,779,098	\$ 104,544,036
Costs and expenses:			
Cost of sales	52,367,255	54,118,196	58,901,612
Selling, administrative and engineering expenses	38,545,959	38,025,707	36,950,550
Research and development expense	653,295	627,714	646,339
Interest income	(131,268)	(250,923)	(267,880)
Interest expense	<u>578,080</u>	<u>771,445</u>	<u>1,014,563</u>
	<u>92,013,321</u>	<u>93,292,139</u>	<u>97,245,184</u>
Income before income tax expenses and cumulative effect of change in accounting principle	3,277,019	4,486,959	7,298,852
Provision for income tax expense	<u>1,056,000</u>	<u>1,557,000</u>	<u>2,714,000</u>
Income before cumulative effect of change in accounting principle	2,221,019	2,929,959	4,584,852
Cumulative effect of change in accounting principle	<u>(6,281,251)</u>		
Net income (loss)	<u>\$ (4,060,232)</u>	<u>\$ 2,929,959</u>	<u>\$ 4,584,852</u>
Net income (loss) per common share:			
Basic:			
Before cumulative effect of change in accounting principle	\$ 0.44	\$ 0.56	\$ 0.83
Cumulative effect of change in accounting principle, net	<u>(1.24)</u>		
Basic net income (loss) per share	<u>\$ (0.80)</u>	<u>\$ 0.56</u>	<u>\$ 0.83</u>
Diluted:			
Before cumulative effect of change in accounting principle	\$ 0.44	\$ 0.56	\$ 0.82
Cumulative effect of change in accounting principle	<u>(1.24)</u>		
Diluted net income per share	<u>\$ (0.80)</u>	<u>\$ 0.56</u>	<u>\$ 0.82</u>
Average common shares outstanding:			
Basic	<u>5,069,347</u>	<u>5,200,546</u>	<u>5,534,101</u>
Diluted	<u>5,077,728</u>	<u>5,215,398</u>	<u>5,560,795</u>
Comprehensive income (loss):			
Net income (loss)	\$ (4,060,232)	\$ 2,929,959	\$ 4,584,852
Other comprehensive income (loss)	<u>971,836</u>	<u>(333,113)</u>	<u>(464,283)</u>
Comprehensive income (loss)	<u>\$ (3,088,396)</u>	<u>\$ 2,596,846</u>	<u>\$ 4,120,569</u>

The accompanying notes are an integral part of the financial statements.

**CPAC, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED MARCH 31, 2003, 2002 AND 2001**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock at Cost</u>
BALANCE, MARCH 31, 2000	\$ 57,265	\$ 13,988,163	\$ 39,273,059	\$ (945,939)	\$ (590,188)
Repurchase and retirement of 226,089 shares of common stock	(2,261)	(1,618,989)			
Restricted stock amortization		3,000			
Net income for the year			4,584,852		
Cash dividends declared at \$.28 a share			(1,558,331)		
Translation adjustments				(464,283)	
BALANCE, MARCH 31, 2001	55,004	12,372,174	42,299,580	(1,410,222)	(590,188)
Repurchase and retirement of 291,671 shares of common stock	(2,916)	(1,833,351)			
Net income for the year			2,929,959		
Cash dividends declared at \$.28 a share			(1,454,697)		
Translation adjustments				(333,113)	
BALANCE, MARCH 31, 2002	52,088	10,538,823	43,774,842	(1,743,335)	(590,188)
Repurchase and retirement of 178,287 shares of common stock	(1,783)	(932,839)			
Net income (loss) for the year			(4,060,232)		
Cash dividends declared at \$.28 a share			(1,426,080)		
Translation adjustments				971,836	
BALANCE, MARCH 31, 2003	<u>\$ 50,305</u>	<u>\$ 9,605,984</u>	<u>\$ 38,288,530</u>	<u>\$ (771,499)</u>	<u>\$ (590,188)</u>

The accompanying notes are an integral part of the financial statements.

**CPAC, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2003, 2002 AND 2001**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net income (loss)	\$ (4,060,232)	\$ 2,929,959	\$ 4,584,852
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,542,985	2,894,094	2,956,202
Amortization of intangible assets	183,980	573,220	573,183
Deferred income taxes	176,000	(224,000)	7,000
Minority interest in consolidated foreign subsidiary	151,088	127,160	137,544
Cumulative effect of accounting change	6,281,251		
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	1,634,167	1,082,962	660,498
Inventory	(10,666)	(108,643)	1,340,968
Accounts payable	317,875	(292,215)	(504,204)
Accrued payroll and related expenses	(45,414)	142,584	(513,152)
Accrued income taxes payable	(537,386)	138,205	102,527
Other changes, net	(480,970)	(643,538)	519,941
Total adjustments	<u>10,212,910</u>	<u>3,689,829</u>	<u>5,280,507</u>
Net cash provided by operating activities	<u>6,152,678</u>	<u>6,619,788</u>	<u>9,865,359</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment, net	(1,662,428)	(1,678,269)	(1,398,905)
Business investment		(1,890,742)	
Net cash used in investing activities	<u>(1,662,428)</u>	<u>(3,569,011)</u>	<u>(1,398,905)</u>
Cash flows from financing activities:			
Repurchase of common stock	(934,622)	(1,836,267)	(1,621,250)
Proceeds from long-term borrowings	242,136		1,214,735
Repayment of long-term borrowings	(516,248)	(625,136)	(2,075,325)
Payment of cash dividends	(1,426,080)	(1,454,697)	(1,558,331)
Net cash used in financing activities	<u>(2,634,814)</u>	<u>(3,916,100)</u>	<u>(4,040,171)</u>
Effect of exchange rate changes on cash	<u>19,269</u>	<u>(2,728)</u>	<u>(2,907)</u>
Net increase (decrease) in cash and cash equivalents	1,874,705	(868,051)	4,423,376
Cash and cash equivalents -- beginning of year	<u>7,991,834</u>	<u>8,859,885</u>	<u>4,436,509</u>
Cash and cash equivalents -- end of year	<u>\$ 9,866,539</u>	<u>\$ 7,991,834</u>	<u>\$ 8,859,885</u>

The accompanying notes are an integral part of the financial statements.

**CPAC, Inc. And Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES**

The Company

CPAC, Inc. and Subsidiaries ("the Company") develops, manufactures, markets, and distributes both in North America and internationally branded consumer and commercial cleaning products, as well as prepackaged chemical formulations, supplies, and equipment systems to the photographic, health care, and graphic arts imaging industry.

Basis of Consolidation

The consolidated financial statements of the Company include the accounts of the Company, its wholly-owned subsidiaries, its 98% owned subsidiary (CPAC Europe, N.V.), and its 80% owned subsidiaries (CPAC Africa (Pty) LTD and CPAC Asia Imaging Products Limited). The Company's foreign subsidiaries are included in the consolidated financial statements utilizing a December 31 fiscal year to facilitate prompt reporting of financial results. All significant intercompany accounts and transactions have been eliminated. The cost method of accounting is used for investments in which the Company has less than a 20% ownership interest, and the Company does not have the ability to exercise significant influence. These investments are carried at cost and are adjusted only for other than temporary declines in fair values. Profits or losses of the investee are not recognized in the consolidated financial statements of the Company. The carrying value of these investments is reported in other long-term assets.

The minority interests in the earnings of the consolidated foreign subsidiaries for the years ended March 31, 2003, 2002, and 2001 were \$151,088, \$127,160, and \$137,544, respectively, and are included in selling, general, and engineering expenses. Minority interest included in the Consolidated Balance Sheets at March 31, 2003 and 2002 was \$610,956 and \$459,868, respectively.

Inventory

Inventory is stated at the lower of cost or market, on a first-in, first-out, basis. The Company provides inventory reserves for excess, obsolete, or slow-moving inventory based on changes in customer demands or technology developments.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated over their estimated useful lives on the straight-line and accelerated methods (buildings and improvements 15 to 39 years; machinery and equipment 3 to 12 years; leasehold improvements 15 to 39 years; furniture and fixtures 5 to 12 years). Leasehold improvements are amortized over the shorter of the lease period or the expected useful lives of the improvements using the straight-line method. At the time of retirement or other disposition of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets

Effective April 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, the Company's current policy is substantially the same as its previous policy. The Company reviews the carrying value of long-lived assets and intangibles whenever events or changes in circumstances indicate that the carrying value of such items may not be recoverable from undiscounted net cash flows of the related business or asset.

Warranty Costs

The Company has warranty obligations in connection with sales of its equipment sold in the Imaging market. The warranty period generally ranges from six to twelve months. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company estimates its warranty cost at the time of sale for a given product based on historical failure rates and related costs to repair. The change in the Company's accrued warranty obligations from March 31, 2002 to March 31, 2003 was as follows (in thousands):

Accrued warranty obligations at March 31, 2002	\$ 20
Accrued warranty experience during 2003	(38)
2003 warranty provisions	<u>49</u>
Accrued warranty obligations at March 31, 2003	<u>\$ 31</u>

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Revenue Recognition

The Company recognizes revenue when it is realized or realizable and has been earned. Product revenue is recognized primarily when the product has been shipped and legal title and all risks of ownership have been transferred, sales price is fixed and determinable, and collectibility is reasonably assured. Appropriate accruals for discounts, volume rebates, and other allowances are recorded as reduction in sales.

Shipping and Handling Fees and Costs

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company classifies shipping and handling costs billed to customers as revenue. Shipping and handling costs for the Fuller Brands' Segment amounting to \$6,272,000, \$6,275,000, and \$6,463,000 in 2003, 2002, and 2001, respectively, are included in selling, administrative and engineering expenses. Similar costs for the Imaging Segment amounting to \$3,056,000, \$2,878,000, and \$2,866,000 in 2003, 2002, and 2001, respectively, are included in cost of sales.

Research and Development

The Company charges research and development expenditures to income as incurred.

Advertising

The Company charges advertising expenditures to income as incurred and includes the expenses in "selling, administrative, and engineering expenses."

Stock-Based Compensation

As permitted under SFAS No. 123, "Accounting for Stock Based Compensation," the Company continues to apply the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 in accounting for its stock option plans. Accordingly, no expense is charged to net income as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant.

In accordance with SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," the following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" to its stock options plans:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income (loss) as reported	\$ (4,060,232)	\$ 2,929,959	\$ 4,584,852
Total stock-based compensation expense determined under fair value method for all awards, net of tax	<u>77,000</u>	<u>157,000</u>	<u>232,000</u>
Proforma net income (loss)	<u>\$ (4,137,232)</u>	<u>\$ 2,772,959</u>	<u>\$ 4,352,852</u>
Net income (loss) per common share:			
Basic-as reported	<u>\$ (0.80)</u>	<u>\$ 0.56</u>	<u>\$ 0.83</u>
Basic-proforma	<u>(0.82)</u>	<u>0.53</u>	<u>0.79</u>
Diluted-as reported	<u>(0.80)</u>	<u>0.56</u>	<u>0.82</u>
Diluted-proforma	<u>\$ (0.82)</u>	<u>\$ 0.53</u>	<u>\$ 0.78</u>

Foreign Currency

All assets and liabilities of the Company's wholly-owned and majority-owned foreign subsidiaries are translated from their functional currency to U.S. dollars at year end exchange rates. Revenues and expenses are translated from functional currencies to U.S. dollars using an average exchange rate for the year. Translation gains and losses are not included in determining net income, but are accumulated as a separate component of shareholders' equity. Foreign currency transaction gains and losses are included in the determination of net income. Included in consolidated net income are net foreign currency transaction gain (losses) of \$77,000, (\$210,000), and (\$275,000), realized during fiscal 2003, 2002, and 2001, respectively.

The Company has occasionally utilized hedging programs (primarily forward foreign currency exchange contracts) to minimize the impact of currency fluctuations on the result of operations. At March 31, 2003 and 2002, no forward foreign currency exchange contracts were outstanding. The Company does not hold or issue derivatives for trading purposes and is not a party to leveraged derivative transactions.

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Net Income Per Common Share

Basic EPS is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options.

The table below summarizes the amounts used to calculate basic and dilutive earnings per share:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Basic weighted average number of shares outstanding	5,069,347	5,200,546	5,534,101
Effect of dilutive stock options	<u>8,381</u>	<u>14,852</u>	<u>26,694</u>
Diluted shares outstanding	<u>5,077,728</u>	<u>5,215,398</u>	<u>5,560,795</u>

Unexercised stock options to purchase 916,417, 592,686, and 712,811 shares of the Company's common stock as of March 31, 2003, 2002, and 2001, respectively, were not included in the computations of diluted EPS because the options' exercise prices were greater than the average market price of the Company's common stock during the respective periods. These options, issued at various dates from 1995 through August 13, 1999, are still outstanding at the end of the year.

Statements of Cash Flows

For purposes of the statements of cash flows, the Company considers marketable securities with a maturity of three months or less at the time of purchase to be cash equivalents. The Company also considers payments due from banks for customer credit card transactions that process within 24 to 48 hours as cash equivalents. Credit card amounts due from banks classified as cash equivalents total approximately \$528,000 and \$730,000 at March 31, 2003 and 2002, respectively. The Company paid interest of \$585,000, \$777,000, and \$1,011,000, in fiscal 2003, 2002, and 2001, respectively. In addition, the Company paid income taxes of \$1,417,000, \$1,643,000, and \$2,604,000, in fiscal 2003, 2002, and 2001, respectively.

Goodwill and Intangible Assets

Prior to adoption of Statement of Financial Accounting Standards (SFAS) No. 142, the Company amortized goodwill and certain intangibles assets on a straight-line basis over the estimated useful lives of such assets, using amortizable periods ranging from 3 to 40 years, respectively. The Company adopted the provisions of SFAS No. 142 effective April 1, 2002. The pronouncement requires an annual impairment test (comparison of estimated fair value to carrying value) in lieu of monthly amortization for goodwill. To determine potential impairment, fair value of the applicable business units is determined by computing the present value of expected future cash flows.

In conjunction with adoption, goodwill's carrying value was reduced by approximately \$6.3 million, net of income tax benefit of \$4.2 million, or \$1.24 per diluted share. See footnote 5.

Business and Credit Concentrations

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of temporary cash investments and trade accounts receivable. The Company places its temporary cash investments with high credit quality financial institutions. The Company's customers are not concentrated in any specific geographic region, but are broadly concentrated in the cleaning and personal care products and imaging industries. Concentrations of credit risk with respect to trade receivables are limited due to the large number of domestic and foreign customers comprising the Company's customer base, and their dispersion across several different business sectors participating in different facets of the cleaning and personal care products and imaging industries.

Fair Values of Financial Instruments

The fair value of financial instruments classified as current assets or liabilities including cash and cash equivalents, receivables, and accounts payable approximates their carrying values due to the short-term maturity of the instruments. The fair value of short-term and long-term debt approximates their carrying value based on their effective interest rates compared to current market rates.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CPAC, Inc. And Subsidiaries**  
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Income Taxes

Income tax expense is based on reported income before income tax expense. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Other Comprehensive Income

Other comprehensive income includes foreign currency translation adjustments. Because cumulative translation adjustments are considered a component of permanently invested, unremitted earnings of subsidiaries outside the United States, no taxes are provided on such amounts.

Segment Reporting

The Company has two operating Segments. The basis for determining the Company's operating Segments is the manner in which the Company in its operations uses financial information. Management operates and organizes itself according to business units, which comprise unique products and services across geographic locations.

New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is required to implement SFAS No. 143 on April 1, 2003, although adoption will have no impact on its consolidated financial position or results of operations.

On April 1, 2002, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was effective for the Company. The adoption of this pronouncement did not have any effect on the Company's financial position, results of operations, or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, amendment of FASB Statement No. 13, and Technical Corrections," was issued. SFAS No. 145 rescinds SFAS No. 4 and SFAS No. 64 related to classification of gains and losses on debt extinguishment and amends SFAS No. 13 with respect to sales-leaseback transactions. The pronouncement was effective for the Company April 1, 2002 and had no impact on the Company's reported results of operations and financial position.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," and requires companies to recognize a liability for costs associated with an exit or disposal activity when the liability is incurred, as opposed to the date of an entity's commitment to an exit plan (as required under EITF No. 94-3). The pronouncement, effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application allowed, did not impact the Company's reported results of operations and financial position for the year ended March 31, 2003. It is possible that future expense reduction efforts may be necessary, and if so, provisions of this pronouncement may apply to future results of operations and financial position of the Company.

In December 2002, SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure-an amendment of FASB No. 123" was issued. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock based employee compensation. It also amends disclosure requirements of SFAS No. 123 requiring disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of this statement are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. At this time, the pronouncement is not expected to have any impact on the Company's reported results of operations and financial position as the Company continues to account for its stock compensation plans under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees".

In November 2002, FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligation it assumes under that guarantee and must disclose that information in its interim and annual

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financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. At this time, the Company does not expect the recognition and measurement provisions of FIN 45 to have a material effect on future interim or annual financial statements. The disclosure requirements are effective for the Company's financial statements for the year ended March 31, 2003. In that regard, the Company has the following significant guarantees:

(a) A standby letter of credit issued by Bank of America for \$6.2 million is used by the Company to collateralize the Fuller Brands' Industrial Revenue Bonds.

(b) A standby letter of credit issued by HSBC Bank is used by the Company to guarantee the Company's majority-owned subsidiary CPAC Asia Imaging Products Limited's 20 million baht line of credit (approximately \$464,000 based on the fourth quarter conversion rate in Thailand). At March 31, 2003, the outstanding line of credit borrowings were \$13,107.

(c) Standby letters of credit issued by HSBC Bank are used by the Company to guarantee the Company's majority-owned subsidiary CPAC Asia Imaging Products Limited's term note obligations. These obligations totaled approximately \$918,000 at March 31, 2003.

In January 2003, FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" was issued. The Interpretation provides guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. At this time, the Company does not believe the Interpretation will have an impact on the Company's future reported results of operations and financial position.

**Reclassification**

Certain 2002 and 2001 financial statement and related footnote amounts have been reclassified to conform to the 2003 presentation.

**2 - BUSINESS INVESTMENT**

On January 4, 2002, the Company expanded its distribution agreements with TURA AG of Düren, West Germany, by purchasing a 19% ownership interest in TURA AG for approximately \$1,891,000. TURA AG is a manufacturer and supplier of photographic paper and film emulsion products to the worldwide silver halide photographic market, as well as a manufacturer of wide format inkjet printing consumables. The Company's investment has been accounted for under the cost method.

On April 8, 2003, the Company increased its investment in TURA AG from 19% to 40% by acquiring an additional 21% ownership for approximately \$1,300,000. The Company will account for its total investment under the equity method and will restate previous periods reported starting in fiscal 2004 to reflect the proportionate share of the investee's earnings.

**3 - INVENTORY**

Inventory as of March 31, 2003 and 2002 is summarized as follows:

	<u>2003</u>	<u>2002</u>
Raw materials and purchased parts	\$ 7,251,465	\$ 7,012,149
Work-in-process	1,046,611	905,305
Finished Goods	9,477,499	9,637,849
	<u>\$ 17,775,575</u>	<u>\$ 17,555,303</u>

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**4 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are comprised of the following at March 31:

	<u>2003</u>	<u>2002</u>
Land	\$ 1,067,411	\$ 1,034,762
Buildings and improvements	13,771,446	13,481,266
Machinery and equipment	22,066,316	20,438,693
Furniture and fixtures	819,438	786,071
Leasehold improvements	1,766,673	1,494,728
Construction-in-progress	<u>180,118</u>	<u>309,859</u>
	39,671,402	37,545,379
Less: Accumulated depreciation	<u>(22,660,834)</u>	<u>(19,854,839)</u>
	<u>\$ 17,010,568</u>	<u>\$ 17,690,540</u>

**5 - GOODWILL AND INTANGIBLE ASSETS**

The Company adopted SFAS No. 142 on April 1, 2002. In connection with adoption of SFAS No. 142, the Company completed its impairment testing and determined that the carrying value of goodwill needed to be reduced by approximately \$6.3 million, net of income tax benefit of \$4.2 million, or \$1.24 per diluted share. The impairment adjustment was related to the Fuller Brand's Cleaning Technologies Group (CTG) operation, acquired in fiscal 1998, and was a result of a combination of factors, including operating performance, as well as new measurement techniques and methodologies as prescribed by SFAS No. 142. In determining impairment, the fair value of the reporting unit (CTG) was computed by using the present value of future cash flows, compared to its carrying value, including goodwill. The adjustment is shown as a cumulative effect of change in accounting principle in the consolidated statements of operations and comprehensive income for the year ended March 31, 2003. The income tax benefit realized, netted with the previously recognized deferred tax credit, resulted in the recording of a long-term deferred tax asset upon adoption.

A summary of changes in the Company's goodwill during 2003 by Segment is as follows (in thousands):

	<u>March 31, 2002</u>	<u>Impairment</u>	<u>March 31, 2003</u>
Fuller Brands	\$ 10,469	\$ (10,469) (a)	\$ 0
Imaging	<u>193</u>	<u>          </u>	<u>193</u>
Total	<u>\$ 10,662</u>	<u>\$ (10,469)</u>	<u>\$ 193</u>

(a) Actual impairment charge recorded was \$6,281, net of tax benefit of \$4,188.

The following table presents prior year earnings and earnings per share as if the non-amortization provisions of SFAS No. 142 had been applied in the prior year:

	<u>2002</u>	<u>2001</u>
Reported net income	\$ 2,929,959	\$ 4,584,852
Addback goodwill amortization	<u>232,000</u>	<u>236,000</u>
Adjusted net income	<u>\$ 3,161,959</u>	<u>\$ 4,820,852</u>
Basic earnings per common share before cumulative effect of change in accounting principle:		
Reported basic earnings per common share	\$ 0.56	\$ 0.83
Addback goodwill amortization, net of tax	<u>0.05</u>	<u>0.04</u>
Adjusted basic earnings per common share	<u>\$ 0.61</u>	<u>\$ 0.87</u>
Diluted earnings per common share before cumulative effect of change in accounting principle:		
Reported diluted earnings per common share	\$ 0.56	\$ 0.82
Addback goodwill amortization, net of tax	<u>0.04</u>	<u>0.04</u>
Adjusted diluted earnings per common share	<u>\$ 0.60</u>	<u>\$ 0.86</u>
Reported comprehensive income	\$ 2,596,846	\$ 4,120,569
Addback goodwill amortization, net of tax	<u>232,000</u>	<u>236,000</u>
Adjusted comprehensive income	<u>\$ 2,828,846</u>	<u>\$ 4,356,569</u>

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At March 31, 2003 and 2002, amortizable intangibles consisted primarily of a contractual license agreement allowing the Company to manufacture and distribute products through the use of the trademarks and formulas of Stanley Home Products. The license is being amortized over the contract period, which expires on March 31, 2010. The cost pertaining to this intangible at March 31, 2003 and 2002 was \$2,250,000, while accumulated amortization at March 31, 2003 and 2002 were \$1,200,000 and \$1,050,000, respectively.

**6 - DEBT**

At March 31, 2003 and 2002, debt consisted of the following:

	<u>2003</u>	<u>2002</u>
Revolving credit agreement with a bank with interest payable monthly at the 30 day LIBOR rate plus 1.25%. LIBOR rate was 1.30% at March 31, 2003. The maximum availability under this agreement is \$20,000,000 with all amounts outstanding due October 31, 2004. The revolving credit agreement is collateralized by substantially all of the assets of the Company, excluding CPAC Europe, N.V., and CPAC Asia Imaging Products Limited	\$ 0	\$ 0
Industrial Revenue Bonds, with interest payable monthly at a variable rate 1.35% at March 31, 2003 (2.00% at 2002), maturing in June 2009. The bonds are collateralized by a standby letter of credit (LOC) issued by a bank, which requires an annual fixed fee payment of 1.25% of the LOC value.	6,000,000	6,000,000
Term notes with a foreign bank with interest ranging from 4.050% to 7.385% through 2003, with a floating rate thereafter. Equal quarterly interest and principal payments commenced in June 2001, maturing in 2006. The notes are collateralized by substantially all of the assets of CPAC Asia Imaging Products Limited and a standby letter of credit guaranteed by CPAC, Inc.	918,129	1,246,494
Term notes and revolving credit agreement with a foreign bank with interest rates ranging from 3.75% to 6.30%. The revolving credit agreement is collateralized by the net assets of CPAC Europe, N.V.	838,753	897,339
Other	<u>221,519</u>	<u>322,063</u>
	7,978,401	8,465,896
Less: Amounts due within one year	<u>736,197</u>	<u>1,061,175</u>
	<u>\$ 7,242,204</u>	<u>\$ 7,404,721</u>

The Company's revolving credit agreement contains customary covenants, including maintenance of specified working capital, capital expenditures, debt to equity, and net worth ratios, of which the Company was in compliance at March 31, 2003.

The Company's majority-owned subsidiary, CPAC Asia Imaging Products Limited, has a line of credit with an international bank amounting to 20 million baht (approximately \$464,000 based on the year-end conversion rate in Thailand). Interest on the line is at the bank's announced prime rate in Thailand, which was 8.75% at March 31, 2003, and is collateralized by a standby letter of credit (LOC) provided by CPAC, Inc. CPAC Asia Imaging Products Limited had borrowings against the line at March 31, 2003 of \$13,107.

Annual maturities of debt for the next five fiscal years are as follows: 2004:\$736,197; 2005:\$404,770; 2006:\$321,724; 2007:\$94,247; and 2008:\$86,787.

**7 - SHAREHOLDERS' EQUITY**

Stock Transactions

During fiscal 2003, 2002, and 2001, the Company repurchased and retired 178,287, 291,671, and 226,089 shares of its common stock, respectively, at an average cost of \$5.24, \$6.30, and \$7.17 per share, respectively, for a total cost of approximately \$935,000, \$1,836,000, and \$1,621,000, respectively, as part of previously announced Board of Directors' authorized stock buy back plans.

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Stock Options

The Company maintains an Executive Long-Term Stock Investment Plan (the Plan) for key employees, which allows issuance of incentive stock options, nonqualified stock options, reload options, and restricted performance shares. The Plan has reserved for issuance to key employees, 1,200,000 shares of the Company's common stock. Upon exercise, an employee granted an option under the Plan may pay for the Company's stock either with cash or with Company stock already owned by the employee, valued at the fair market value of the stock on the exercise date. The term of the option is determined by the Compensation Committee (the Committee), with most grants having terms of ten years (five years in the case of a greater than 10% shareholder). The options may be exercised in cumulative annual increments of the greater of 25% or 2,500 commencing one year after the date of the grant.

The Company also maintains a Non-Employee Directors Stock Option Plan. At the inception of the Plan, each non-employee director was granted an option to purchase 10,000 shares of the Company's common stock, on a one-time basis for past service rendered to the Board of Directors, at the fair market value at the date of the grant. The term of the option grants is for ten years. In addition, the Directors Plan calls for an annual automatic grant for the purchase of 3,000 shares, per director, of the Company's common stock, on the first Friday after the annual meeting of Shareholders, at a price equal to the fair market value at that date. The term of these grants is also ten years. During fiscal 2003, 2002, and 2001, options of 9,000 were granted each year pursuant to the Directors Plan.

In addition, the Company has customarily granted new Directors options to purchase 15,000 shares upon their election.

As of March 31, 2003, total options outstanding are summarized as follows:

	<u>Shares</u>	<u>Range of Option Price Per Share</u>
Options outstanding -- March 31, 2000	897,156	\$ 5.08 -- \$ 12.00
Exercised	0	--
Expired	(105,818)	7.69 -- 11.81
Granted	<u>60,500</u>	<u>6.38 -- 7.50</u>
Options outstanding -- March 31, 2001	851,838	\$ 5.08 -- \$ 12.00
Exercised	0	--
Expired	(131,125)	6.33 -- 11.56
Granted	<u>275,500</u>	<u>6.25 -- 7.50</u>
Options outstanding -- March 31, 2002	996,213	\$ 5.08 -- \$ 12.00
Exercised	0	--
Expired	(103,425)	6.25 -- 11.56
Granted	<u>69,000</u>	<u>5.02 -- 6.16</u>
Options outstanding -- March 31, 2003	<u>961,788</u>	<u>\$ 5.02 -- \$ 11.81</u>
Options exercisable:		
March 31, 2003	<u>783,288</u>	<u>\$ 5.08 -- \$ 11.81</u>
March 31, 2002	<u>681,213</u>	<u>\$ 5.08 -- \$ 12.00</u>

The following table summarizes information about options outstanding at March 31, 2003:

<u>Year Granted</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Fair Value of Options</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
1994	97,402	0.8	N/A	97,402	\$ 5.46
1995	0	0.0	N/A	0	0.00
1996	159,686	2.8	\$4.33	159,686	11.57
1997	66,500	3.3	4.11	66,500	10.74
1998	91,000	4.4	4.02	91,000	11.63
1999	93,000	5.2	3.80	93,000	10.16
2000	121,500	6.2	2.45	112,250	7.56
2001	47,500	7.2	2.15	45,000	6.75
2002	236,200	8.4	1.72	115,450	6.33
2003	<u>49,000</u>	<u>9.7</u>	1.54	<u>3,000</u>	<u>6.34</u>
Totals	<u>961,788</u>	<u>5.3</u>		<u>783,288</u>	<u>\$ 8.46</u>

**CPAC, Inc. And Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended March 31, 2003, 2002 and 2001**

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As permitted by SFAS No. 123, the Company will continue to apply the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for employee stock options. Had compensation cost been determined based on the fair value at the grant dates for awards under the Company's stock plans in accordance with SFAS No. 123, net income and diluted earnings per share would have been reduced by \$77,000 (\$0.02), \$157,000 (\$0.03), and \$232,000 (\$0.04) in 2003, 2002, and 2001, respectively.

The fair value of these options were estimated at grant date using the Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002, and 2001:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Expected life	5 years	5 years	5 years
Historical volatility	37%	38%	42%
Risk free rate of return	3.3%-4.3%	4.6%-5.0%	6.2%-6.4%
Expected dividend yield	4.6%	4.4%	3.8%-4.4%
Annual forfeiture rate	0%	0%	0%

There have been no charges to income in any of the three years in connection with these options other than incidental expenses related to issuance of options.

Employee Benefits

In December 1999, the Company awarded 25,000 restricted shares of its \$.01 par common stock to an executive officer of the Company subject to certain conditions and restrictions. The shares vest if certain targeted earnings per share levels are reached, at which time the restrictions will lapse. No expense has been recognized for the years ended March 31, 2003, 2002, and 2001, respectively.

The Company maintains a contributory profit sharing plan [401(k)] for the benefit of substantially all employees. Contributions to the plan may be made for each plan year in such amounts as the Board of Directors may, at its discretion, determine. In addition, the Company will also match to a maximum of 3% of the participant's compensation each contribution made by a plan participant for the plan year in an amount equal to \$.50 for each \$1.00 of participant contribution. A participant may contribute up to 15% of compensation to the plan. The amount charged to expense in connection with this plan was \$409,000, \$398,000, and \$408,000, respectively, for the years ended March 31, 2003, 2002, and 2001.

The Company maintains a nonqualified deferred compensation plan for various key executives of the Company. Contributions to the plan consist of "excess" 401(k) deferrals and percentages of salaries and bonuses. No matching contribution by the Company is required. Compensation deferred will be invested by the Company in various investment grade "pooled accounts" on behalf of the participants. At March 31, 2003 and 2002, total assets and liabilities resulting from the nonqualified plan were not material.

**8 - INCOME TAX EXPENSE**

Income (loss) before income taxes, and cumulative effect adjustments for the three years ended March 31 was as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
U.S.	\$ 2,322,289	\$ 3,339,076	\$ 5,955,136
Foreign	954,730	1,147,883	1,343,716
	<u>\$ 3,277,019</u>	<u>\$ 4,486,959</u>	<u>\$ 7,298,852</u>

**CPAC, Inc. And Subsidiaries**  
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Provisions (benefits) for income taxes for the three years ended March 31 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Federal income taxes:</u>			
Current	\$ 671,000	\$ 1,221,000	\$ 1,935,000
Deferred	133,000	(210,000)	6,000
<u>Foreign income taxes:</u>			
Current	138,000	306,000	380,000
Deferred	19,000		
<u>State income taxes:</u>			
Current	71,000	254,000	392,000
Deferred	<u>24,000</u>	<u>(14,000)</u>	<u>1,000</u>
	<u>\$ 1,056,000</u>	<u>\$ 1,557,000</u>	<u>\$ 2,714,000</u>

The income tax provisions for 2003 shown above exclude the U.S. income tax benefit of \$4,188,000 recognized in conjunction with the cumulative effect adjustment recorded upon adoption of SFAS No. 142, "Goodwill and other Intangible Assets."

The differences between the provision for income taxes and income taxes computed using the U.S. federal income tax rate are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Income tax expense using statutory rates	\$ 1,114,000	\$ 1,526,000	\$ 2,482,000
State income tax effect	63,000	158,000	259,000
Foreign income taxed at different rates	(168,000)	(84,000)	(77,000)
Other	<u>47,000</u>	<u>(43,000)</u>	<u>50,000</u>
	<u>\$ 1,056,000</u>	<u>\$ 1,557,000</u>	<u>\$ 2,714,000</u>

The Company's Asian subsidiary was granted certain exemptions from corporate income tax by Thailand's Board of Investment Promotion, based on manufacturing of photographic solutions and exporting certain levels of manufactured products. The exemption commenced in fiscal 2000 and expires in fiscal 2007 subject to meeting certain terms and conditions. The net impact of the holiday was to increase net income by approximately \$172,000 (\$.03 per diluted share), \$164,000 (\$.03 per diluted share), and \$106,000 (\$.02 per diluted share), respectively, for fiscal 2003, 2002, and 2001.

Temporary differences and carryforwards, which give rise to deferred tax assets and liabilities at March 31, are as follows:

	<u>2003</u>	<u>2002</u>
<u>Deferred tax assets:</u>		
Current:		
Accounts receivable	\$ 192,000	\$ 148,000
Inventory	420,000	487,000
Compensation related accruals	333,000	471,000
Other	<u>13,000</u>	<u>10,000</u>
	958,000	1,116,000
Noncurrent:		
Deferred compensation	511,000	325,000
Foreign NOL carryforward	386,000	
Intangibles	<u>2,700,000</u>	<u>          </u>
	<u>3,597,000</u>	<u>325,000</u>
	4,555,000	1,441,000
<u>Deferred tax liabilities:</u>		
Noncurrent:		
Intangibles		(1,167,000)
Property, plant and equipment	(765,000)	(899,000)
Other	<u>(6,000)</u>	<u>(6,000)</u>
	<u>(771,000)</u>	<u>(2,072,000)</u>
Total:	<u>\$ 3,784,000</u>	<u>\$ (631,000)</u>

**CPAC, Inc. And Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended March 31, 2003, 2002 and 2001**

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During 2003, the Company's African subsidiary acquired an operation possessing a net operating loss carryforward, which can be used to offset its future taxable income. It is expected that the carryforward, amounting to approximately \$386,000 at March 31, 2003, will be utilized before expiration.

The Company has not provided for U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practical.

**9 - COMMITMENTS**

Royalty Agreement

The Company has a license agreement with an unrelated third party to manufacture and distribute products through the use of the trademarks and formulas of Stanley Home Products in the U.S., Puerto Rico, and Canada, over the life of the agreement which expires, unless terminated earlier, on March 31, 2010. The Company is required to pay royalties equal to the greater of \$325,000 or a maximum of 3% of the net selling price of products sold under the licensing agreement. Total royalties paid in 2003, 2002, and 2001 were \$325,000, \$325,000, and \$356,028, respectively. The Company recorded a liability equal to the net present value of the minimum, annual royalty payments, and capitalized the value of the license agreement, which is being amortized over the contract period. The obligation, grouped with other long-term liabilities, recorded at March 31, 2003 and 2002 was \$1,319,561 and \$1,444,941, respectively.

Lease Agreements

The Company leases certain facilities and equipment under operating leases, which expire at various dates through 2012. Some of the leases contain renewal options. Rent expense for the years ended March 31, 2003, 2002, and 2001 was \$1,364,000, \$1,404,000, and \$1,392,000, respectively.

The above leases have been classified as operating leases in accordance with the provisions of the Statement of Financial Accounting Standards No. 13. The future minimum rental payments required under the leases for the fiscal years ended subsequent to March 31, 2003 are as follows:

2004	\$ 1,245,179
2005	869,452
2006	577,205
2007	449,722
2008	368,557
Thereafter	<u>674,690</u>
	<u>\$ 4,184,805</u>

Other Matters

The Company and its subsidiaries are parties to various environmental issues, legal actions, and complaints arising in the ordinary course of business. No such pending matters are expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

**CPAC, Inc. And Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**for the Years Ended March 31, 2003, 2002 and 2001**

**10 - SEGMENT INFORMATION**

Business Segments

For purposes of financial reporting, the Company operates in two industry Segments: the Fuller Brands Segment, which is involved in developing, manufacturing, distributing, and marketing branded consumer and commercial cleaning and personal care products in North America and internationally, and the CPAC Imaging (Imaging) Segment, which includes the Company's color photographic, health care, and graphic arts imaging operations in the United States, Belgium, Italy, South Africa, and Thailand. The products of each Segment are manufactured and marketed both in the U.S. and in other parts of the world. Sales between Segments are not material. Information concerning the Company's business Segments for 2003, 2002, and 2001 is as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Net sales to customers:</u>			
Fuller Brands	\$ 56,068,290	\$ 57,214,485	\$ 60,651,677
Imaging	<u>39,222,050</u>	<u>40,564,613</u>	<u>43,892,359</u>
Total net sales to customers	<u>\$ 95,290,340</u>	<u>\$ 97,779,098</u>	<u>\$ 104,544,036</u>
<u>Operating income:</u>			
Fuller Brands	\$ 2,838,727	\$ 2,726,261	\$ 4,406,966
Imaging	<u>1,131,343</u>	<u>1,965,154</u>	<u>3,520,328</u>
	3,970,070	4,691,415	7,927,294
Corporate income (expense)	(246,239)	316,066	118,241
Interest expense, net	<u>(446,812)</u>	<u>(520,522)</u>	<u>(746,683)</u>
Consolidated pretax income	<u>\$ 3,277,019</u>	<u>\$ 4,486,959</u>	<u>\$ 7,298,852</u>
<u>Identifiable assets:</u>			
Fuller Brands	\$ 30,622,190	\$ 42,692,131	\$ 43,571,454
Imaging	<u>25,249,619</u>	<u>24,559,865</u>	<u>24,030,519</u>
Total segment assets	55,871,809	67,251,996	67,601,973
Corporate short-term investments	5,752,040	4,974,251	6,522,888
Deferred income tax assets	4,555,099	1,440,790	1,172,790
Other corporate assets	<u>2,211,342</u>	<u>2,291,858</u>	<u>1,923,519</u>
Total consolidated assets	<u>\$ 68,390,290</u>	<u>\$ 75,958,895</u>	<u>\$ 77,221,170</u>
<u>Depreciation and amortization:</u>			
Fuller Brands	\$ 1,436,377	\$ 2,061,259	\$ 2,241,139
Imaging	<u>1,290,588</u>	<u>1,406,055</u>	<u>1,288,246</u>
Total depreciation and amortization	<u>\$ 2,726,965</u>	<u>\$ 3,467,314</u>	<u>\$ 3,529,385</u>
<u>Capital outlays:</u>			
Fuller Brands	\$ 397,304	\$ 1,077,917	\$ 791,722
Imaging	<u>1,265,124</u>	<u>600,352</u>	<u>607,183</u>
Total capital outlays	<u>\$ 1,662,428</u>	<u>\$ 1,678,269</u>	<u>\$ 1,398,905</u>

Operating income represents net sales less operating expenses and excludes interest expense (income) and income taxes.

In 2003 intercompany receivables (payables) were eliminated from the identifiable assets presentation. As such, 2002 and 2001 balances were reclassified to conform to the 2003 presentation. Other differences between the Segment's operating results and assets and the Company's consolidated financial statements relate primarily to items recorded at the Corporate level and to other items excluded from Segment operating measurements. Corporate short-term investments are funds held for future use.

**CPAC, Inc. And Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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Financial information relating to the Company's sales and long-lived assets by geographic area is as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Net sales:</u>			
United States	\$ 80,417,875	\$ 83,836,644	\$ 90,935,739
Foreign	<u>14,872,465</u>	<u>13,942,454</u>	<u>13,608,297</u>
	<u>\$ 95,290,340</u>	<u>\$ 97,779,098</u>	<u>\$ 104,544,036</u>
<u>Long-lived assets:</u>			
United States	\$ 18,838,771	\$ 30,923,453	\$ 30,230,172
Foreign	<u>4,270,015</u>	<u>3,621,108</u>	<u>3,800,778</u>
	<u>\$ 23,108,786</u>	<u>\$ 34,544,561</u>	<u>\$ 34,030,950</u>

Foreign operations are located in Belgium, Italy, South Africa, and Thailand. Net sales are reported in the geographic area in which they originate. Inter-area transfers are not material.

In addition, the Company's U.S. operations had total export sales for the years ended March 31, 2003, 2002 and 2001 of \$1,881,520, \$2,099,077, and \$2,213,118, respectively.

**11 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth the unaudited quarterly results of operations for each of the fiscal quarters in the years ended March 31, 2003 and 2002:

	<u>Net Sales</u>	<u>Gross Profit</u>	<u>Net Income (Loss)</u>	<u>Per Share Income Basic</u>	<u>Per Share Income Diluted</u>
<b><u>2003 Quarters:</u></b>					
Fourth	\$ 23,196,360	\$ 10,329,456	\$ 487,319	\$ 0.10	\$ 0.10
Third	23,685,856	10,696,637	500,271	0.10	0.10
Second	23,786,446	10,645,959	522,702	0.10	0.10
First	<u>24,621,678</u>	<u>11,251,033</u>	<u>(5,570,524)</u>	<u>(1.09)</u>	<u>(1.08)</u>
Total	<u>\$ 95,290,340</u>	<u>\$ 42,923,085</u>	<u>\$ (4,060,232)</u>	<u>\$ (0.80)</u>	<u>\$ (0.80)</u>
<b><u>2002 Quarters:</u></b>					
Fourth	\$ 24,098,896	\$ 10,562,812	\$ 419,210	\$ 0.08	\$ 0.08
Third	23,144,135	10,696,105	725,609	0.14	0.14
Second	26,254,944	11,386,512	1,077,201	0.21	0.21
First	<u>24,281,123</u>	<u>11,015,473</u>	<u>707,939</u>	<u>0.13</u>	<u>0.13</u>
Total	<u>\$ 97,779,098</u>	<u>\$ 43,660,902</u>	<u>\$ 2,929,959</u>	<u>\$ 0.56</u>	<u>\$ 0.56</u>

The sum of the quarterly basic and diluted income per share amounts for the fiscal year ended March 31, 2003 do not equal the annual income per share amounts due to the impact of the Company's common share repurchases on the weighted average share computation computed each quarter.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

Certain information concerning the directors and executive officers of the Company is hereby incorporated by reference to the captions "Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement for the Annual Meeting of Shareholders of the Registrant, dated June 20, 2003, filed pursuant to Regulation 14A.

In addition to the executive officers named in the Proxy Statement, the Registrant employs the following key persons:

**Brian C. Barbo**, President, Trebla Chemical Company, is 46 years old. Prior to his promotion to President on September 1, 1998, he was Vice President and General Manager and had served in that capacity since October 1988; and before that he was Manager of Manufacturing for Trebla Chemical Company. Mr. Barbo, a chemical engineer, has been with the Company since July 1979.

**Steven E. Baune**, President, CPAC Imaging, is 54 years old. Prior to his being hired as President effective May 28, 2002, he was the CEO of Coats North America, a division of Coats plc. Before Coats, he had a 26-year career in executive management consumer products (film, digital cameras) with Eastman Kodak Company. Mr. Baune holds an MBA in Marketing/Finance from the Rochester (NY) Institute of Technology and a Bachelor of Science in Industrial Engineering from North Dakota State University.

**Dennis Brinly**, Vice President of Sales & Marketing of The Fuller Brush Company, Inc. as of December 2, 2002, is 56 years old. Mr. Brinly brings 20 plus years of proven sales and marketing expertise to Fuller. During his career, he has directed sales and marketing for consumer product brands such as Coleman Powermate<sup>®</sup>, Poulan/Weed Eater<sup>®</sup>, and Homelite<sup>®</sup>. He holds a Master of Science degree from Chicago State University and Bachelor of Science degree from Missouri Valley College.

**G. Robert Gey**, age 58, effective January 16, 2003 was appointed to President of Fuller Brands and from April 11, 2002, until this date was President of The Fuller Brush Company, Inc. Before his position with Fuller, he was president of a \$140 million service equipment subsidiary of Pentair, Inc., where he gained extensive experience in mergers and acquisitions, as well as operations and business development. Mr. Gey holds an MBA from Loyola College, Baltimore, Maryland, and a Bachelor of Science in Business Administration from Athens College in Alabama and currently serves as a Director of Hawkins, Inc., a Director of the Great Bend Chamber of Commerce Board, and a member on the Direct Selling Association's Strategic and Long-Range Planning Committee.

**Jeff Ray**, Vice President of Operations of The Fuller Brush Company, Inc. as of September 23, 2002, is 56 years old. Mr. Ray has over 26 years of experience demonstrating continuous improvements in materials, logistics, and manufacturing in a variety of industries including automotive, construction, distribution, and pharmaceutical. Mr. Ray holds a Bachelor of Science in Economics and Business Administration from Park University in Parkville, Missouri.

**Stanley H. Gulbin**, age 50, is President of CPAC Asia Imaging Products Limited, after being promoted on December 16, 1998, in addition to his responsibilities as Vice President, International Markets, CPAC Imaging. Prior to joining CPAC in 1996, Mr. Gulbin had 17 years experience in the photographic industry, including all aspects of foreign and domestic sales and marketing. After joining CPAC in 1996, his duties were expanded to include managing sales and marketing activities for the CPAC Imaging's international markets.

**Brad A. Hendrickson**, age 39, was appointed President, CPAC Imaging, Americas, effective May 16, 2002. He was previously President of Allied Diagnostic Imaging Resources, Inc. He began his career with CPAC in 1986 and has held several sales and marketing management positions including National Accounts Manager and Vice President of National Sales for Allied. A graduate of the University of Wisconsin with a Bachelor of Science in Economics, Mr. Hendrickson received an MBA from Emory University in Atlanta.

**Glenn G. Jackling**, President of Cleaning Technologies Group since December 20, 1999, is 41 years old. He has been a CPAC, Inc. employee since 1998, when he joined the Company as Corporate Financial Projects Manager. He was promoted in 1999 to Director of Corporate Business Development. He holds an MBA from the University of Rochester's Simon School of Business and both a Master of Science in Applied and Mathematical Statistics and a Bachelor of Science in Mechanical Engineering from Rochester Institute of Technology.

**Thomas C. LeBlanc**, age 52, was named President of Allied Diagnostic Imaging Resources, Inc. effective May 28, 2002. Mr. LeBlanc joined Allied in November 1998 as Executive Vice President. He has total profit and loss responsibility for both Allied and the CPAC Equipment Division, which was integrated into Allied's organizational structure in August 2000. Mr. LeBlanc holds an MBA from Emory University, Atlanta, Georgia, and a Bachelor of Science in Chemical Engineering from the University of Southwestern Louisiana.

**Item 11. EXECUTIVE COMPENSATION.**

Information regarding executive compensation is hereby incorporated by reference to the same caption in the Registrant's 2003 Proxy Statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The stock ownership of each person known to CPAC to be the beneficial owner of more than 5% of its Common Stock and the stock ownership of all directors and officers of CPAC as a group are hereby incorporated by reference to the caption "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's 2003 Proxy Statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A. The beneficial ownership of CPAC Common Stock of all directors of the Company is hereby incorporated by reference to the caption "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's 2003 Proxy Statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Information regarding certain relationships and related transactions is hereby incorporated by reference to the captions "Election of Directors" and "Committee Reports" in the Registrant's 2003 Proxy Statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

**Item 14. CONTROLS AND PROCEDURES.**

Within 90 days prior to the date the Company's Annual Report on Form 10-K was filed with the Securities and Exchange Commission, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's management, including its chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or other factors that could significantly affect internal controls subsequent to the date of such evaluation.

**Item 15. PRINCIPAL ACCOUNTANTS FEES AND SERVICES.**

Information regarding principal accountants fees and services is hereby incorporated by reference to the same caption in the Registrant's 2003 Proxy Statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A.

**PART IV**

**Item 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a) The following financial statements of the Registrant are included as a part of the report:

**1. Financial Statements:**

Report of Independent Accountants

Consolidated Balance Sheets as of March 31, 2003 and 2002

Consolidated Statements of Operations and Comprehensive Income for the Years Ended March 31, 2003, 2002, and 2001

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended March 31, 2003, 2002, and 2001

Consolidated Statements of Cash Flows for the Years Ended March 31, 2003, 2002, and 2001

Notes to Consolidated Financial Statements

**2. Financial Statement Schedules:**

Schedule II, Valuation and Qualifying Accounts and Reserves

Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(b) Reports on Form 8-K

1. On April 10, 2003, the Company filed a Current Report (Form 8-K) with respect to the April 8, 2003 increase in equity investment in TURA AG, a German manufacturer of film, paper, and digital equipment from 19% to 40%. CPAC made its original equity investment in January 2002. Terms of the arrangement were not disclosed.
2. On June 9, 2003, the Company filed a Current Report (Form 8-K) with respect to the June 5, 2003 earnings release reporting fourth quarter and full-year results for the fiscal year ended March 31, 2003 and quarterly cash dividend declared.

(c) Exhibits

2. Plan of acquisition, regarding organization, arrangement, liquidation, or succession
3. Articles of Incorporation, By-laws
  - 3.1 Certificate of Incorporation, as amended September 11, 1996, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1996, and further amended by Certificate of Amendment dated August 19, 1999, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1999
  - 3.2 By-laws, as amended, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1998
4. Instruments defining the rights of security holders, including indentures
  - 4.1 Loan Agreement dated February 9, 1994, and Letter of Commitment dated December 16, 1993, incorporated herein by reference to Form 10-K filed for period ended March 31, 1994, as amended by Exhibits 99.1 to 99.3 filed as Exhibits to the Form 10-Q for the quarter ended December 31, 1994, and amended by Letter of extension and increase dated October 29, 1996, filed as Exhibit 99.1 to Form 10-Q for the quarter ended September 30, 1996, and further amended by First Amendment to Second Amended and Restated Loan Agreement dated October 31, 1996, filed as Exhibit 4.1 to Form 10-Q for the quarter ended December 31, 1996, and further amended by Agreement dated September 12, 1997 filed as Exhibit 99.1 to Form 10-Q for the quarter ended September 30, 1997, and further amended by Second Amendment to Second Amended and Restated Loan Agreement dated July 10, 1998, filed as Exhibit 4.1 to Form 10-Q for the quarter ended June 30, 1998, and further amended by Agreement dated April 27, 2000 filed as Exhibit 4.1 to Form 10-K for the period ended March 31, 2000
  - 4.2 Bank Letter of Commitment dated May 24, 2002 incorporated herein by reference to Form 10-K filed for the period ended March 31, 2002
9. Voting trust agreement
10. Material contracts
  - 10.1 Employment Agreement between Thomas N. Hendrickson and CPAC, Inc. dated September 30, 1995, incorporated herein by reference to Form 10-Q filed for the period ended September 30, 1995, and amended by Extension of Employment Agreement dated July 20, 1998, incorporated herein by reference to Form 10-K filed for the period ended March 31, 1999
  - 10.2 CPAC, Inc. Executive Long-Term Stock Investment Plan, incorporated herein by reference to Form S-8 Registration Statement filed on October 29, 1994, as amended and incorporated by reference to Form S-8 Registration Statements filed on October 3, 1996 and September 24, 1999
  - 10.3 CPAC, Inc. 1996 Nonemployee Directors Stock Option Plan, incorporated herein by reference to Form S-8 Registration Statement filed October 3, 1996, as amended and incorporated by reference to Form S-8 Registration Statements filed on October 14, 1997, November 24, 1998, September 24, 1999, September 29, 2000, September 7, 2001 and November 8, 2002
  - 10.4 Deferred Compensation Arrangement between Thomas N. Hendrickson and CPAC, Inc. dated October 13, 1992, incorporated herein by reference to Form 10-Q filed for the period ended December 31, 1992, and amended by Amendment to Deferred Compensation Arrangement dated July 20, 1998, incorporated herein by reference to Form 10-K filed for the period ended March 31, 1999, and further amended by Amendment to Deferred Compensation Arrangement dated October 25, 2001, incorporated herein by reference to Form 10-Q filed for the period ended September 30, 2001
  - 10.5 CPAC, Inc. Nonqualified Deferred Compensation Plan dated December 30, 1999, incorporated herein by reference to Form 10-Q filed for the period ended December 31, 1999
11. Statement regarding computation of per share earnings (loss)
12. Statement regarding computation of ratios
13. Annual report to security holders
14. Code of ethics
16. Letter regarding change of certifying accountant

- 18. Letter regarding change in accounting principles
  - 21. Subsidiaries of the registrant
    - 21.1 Subsidiaries of the registrant
  - 22. Published report regarding matters submitted to vote of security holders
  - 23. Consents of experts and counsel
    - 23.1 Consent of PricewaterhouseCoopers LLP
  - 24. Power of attorney
  - 31. Rule 13a-14(a)/15d-14(a) Certifications
  - 32. Section 1350 Certifications
  - 99. Additional exhibits
    - 99.1 CPAC, Inc.'s Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
    - 99.2 CPAC, Inc.'s Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (d) Financial Statement Schedules.

**Schedule II**

**CPAC, INC.  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE FISCAL YEARS ENDED MARCH 31, 2003, 2002 AND 2001**

	<b>Balance at Beginning of Period</b>	<b>Additions</b>		<b>Deductions</b>	<b>Balance at End of Period</b>
		<b>Charged to Expenses</b>	<b>Charged to Other Accounts</b>		
2003:					
Allowance for doubtful accounts	\$ 868,000	\$ 778,000	0	\$ (119,000)	\$ 1,527,000
Inventory reserve	1,172,000	253,000	0	(262,000)	1,163,000
2002:					
Allowance for doubtful accounts	\$ 645,000	\$ 259,000	0	\$ (36,000)	\$ 868,000
Inventory reserve	1,266,000	130,000	0	(224,000)	1,172,000
2001:					
Allowance for doubtful accounts	\$ 696,000	\$ 117,000	0	\$ (168,000)	\$ 645,000
Inventory reserve	1,185,000	788,000	0	(707,000)	1,266,000

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CPAC, INC.**

(Registrant)

Date June 25, 2003 By /s/ Thomas N. Hendrickson  
Thomas N. Hendrickson, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date June 25, 2003 By /s/ Thomas N. Hendrickson  
Thomas N. Hendrickson, President,  
Chief Executive Officer, Treasurer, and Director

Date June 25, 2003 By /s/ Robert Oppenheimer  
Robert Oppenheimer, Secretary and Director

Date June 25, 2003 By /s/ Seldon T. James, Jr.  
Seldon T. James, Jr., Director

Date June 25, 2003 By /s/ Thomas J. Weldgen  
Thomas J. Weldgen, Vice President Finance and Chief  
Financial Officer, and Director

Date June 25, 2003 By /s/ Jerold L. Zimmerman, Ph.D.  
Jerold L. Zimmerman, Ph.D., Director

Date June 25, 2003 By /s/ Stephen J. Carl, Esq.  
Stephen J. Carl, Esq., Director

Date June 25, 2003 By /s/ Wendy F. Clay  
Wendy F. Clay, Vice President, Administration

Date June 25, 2003 By /s/ James W. Pembroke  
James W. Pembroke, Chief Accounting Officer

## CERTIFICATIONS

I, Thomas N. Hendrickson, Chief Executive Officer of CPAC, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of CPAC, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 25, 2003

/s/ Thomas N. Hendrickson  
Thomas N. Hendrickson  
President and Chief Executive Officer

## CERTIFICATIONS

I, Thomas J. Weldgen, Chief Financial Officer of CPAC, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of CPAC, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 25, 2003

/s/ Thomas J. Weldgen

Thomas J. Weldgen

Vice President Finance and Chief Financial Officer

## EXHIBIT INDEX

<u>Exhibit</u>	<u>Page</u>
3. Articles of Incorporation, By-laws	
3.1 Certificate of Incorporation, as amended September 11, 1996, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1996, and further amended by Certificate of Amendment dated August 19, 1999, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1999	N/A
3.2 By-laws, as amended, incorporated herein by reference to Form 10-Q, filed for the period ended September 30, 1998	N/A
4. Instruments defining the rights of security holders, including indentures	
4.1 Loan Agreement dated February 9, 1994, and Letter of Commitment dated December 16, 1993, incorporated herein by reference to Form 10-K filed for period ended March 31, 1994, as amended by Exhibits 99.1 to 99.3 filed as Exhibits to the Form 10-Q for the quarter ended December 31, 1994, and amended by Letter of extension and increase dated October 29, 1996, filed as Exhibit 99.1 to Form 10-Q for the quarter ended September 30, 1996, and further amended by First Amendment to Second Amended and Restated Loan Agreement dated October 31, 1996, filed as Exhibit 4.1 to Form 10-Q for the quarter ended December 31, 1996, and further amended by Agreement dated September 12, 1997 filed as Exhibit 99.1 to Form 10-Q for the quarter ended September 30, 1997, and further amended by Second Amendment to Second Amended and Restated Loan Agreement dated July 10, 1998, filed as Exhibit 4.1 to Form 10-Q for the quarter ended June 30, 1998, and further amended by Agreement dated April 27, 2000 filed as Exhibit 4.1 to Form 10-K for the period ended March 31, 2000	N/A
4.2 Bank Letter of Commitment dated May 24, 2002 incorporated herein by reference to Form 10-K filed for the period ended March 31, 2002	N/A
10. Material contracts	
10.1 Employment Agreement between Thomas N. Hendrickson and CPAC, Inc. dated September 30, 1995, incorporated herein by reference to Form 10-Q filed for the period ended September 30, 1995, and amended by Extension of Employment Agreement dated July 20, 1998, incorporated herein by reference to Form 10-K filed for the period ended March 31, 1999	N/A
10.2 CPAC, Inc. Executive Long-Term Stock Investment Plan, incorporated herein by reference to Form S-8 Registration Statement filed on October 29, 1994, as amended and incorporated by reference to Form S-8 Registration Statements filed on October 3, 1996 and September 24, 1999	N/A
10.3 CPAC, Inc. 1996 Nonemployee Directors Stock Option Plan, incorporated herein by reference to Form S-8 Registration Statement filed October 3, 1996, as amended and incorporated by reference to Form S-8 Registration Statements filed on October 14, 1997, November 24, 1998, September 24, September 24, 1999, September 29, 2000, September 7, 2001 and November 8, 2002	N/A
10.4 Deferred Compensation Arrangement between Thomas N. Hendrickson and CPAC, Inc. dated October 13, 1992, incorporated herein by reference to Form 10-Q filed for the period ended December 31, 1992, and amended by Amendment to Deferred Compensation Arrangement dated July 20, 1998, incorporated herein by reference to Form 10-K filed for the period ended March 31, 1999, and further amended by Amendment to Deferred Compensation Arrangement dated October 25, 2001, incorporated herein by reference to Form 10-Q filed for the period ended September 30, 2001	N/A
10.5 CPAC, Inc. Nonqualified Deferred Compensation Plan dated December 30, 1999, incorporated herein by reference to Form 10-Q filed for the period ended December 31, 1999	N/A
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**CPAC, INC.**  
**CODE OF ETHICS**

**February 10, 2003**

**CPAC, INC.**

**CODE OF BUSINESS CONDUCT AND ETHICS**

The Board of Directors of CPAC, Inc. hereby clarifies and restates its Code of Business Conduct and Ethics. This Code applies to all members of the Board of Directors, all senior executive and financial officers and all employees of CPAC, Inc., its subsidiaries and its divisions. In doing so, the Board reaffirms the following standards of conduct:

- All CPAC personnel must observe the highest standards of business and personal ethics in the conduct of their duties and responsibilities. We must practice honesty and integrity in every aspect of dealing with other company personnel, the public, the business community, shareholders, customers, suppliers and government authorities.
- We prohibit unlawful discrimination against directors, officers, employees, shareholders, customers or suppliers on account of race, color, age, sex, sexual orientation, religion, national origin or mental or physical handicaps. All persons are to be treated with dignity and respect and they shall not be unreasonably interfered with in the conduct of their duties and responsibilities.
- No employee should be misguided by any sense of loyalty to the company or the desire for profitability that might cause him or her to disobey any applicable law or company policy. Violation of company policy will constitute grounds for disciplinary action including, when appropriate, termination of employment.

The Board has restated this Code and made it applicable to all personnel in order to promote:

- Honest and ethical conduct in all our business dealings, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Avoidance of conflicts of interest including disclosure to the person(s) identified below of any material transaction or relationship that reasonably could be expected to give rise to a conflict;
- Compliance with applicable governmental rules and regulations;
- Full, fair, accurate, timely and understandable disclosure in all reports and documents filed by the company with or documents submitted by it to the Securities and Exchange Commission.

A. Compliance with laws, rules and regulations (including insider trading laws)

CPAC, Inc. like any other business is subject to federal, state and local laws and regulations as well as international laws and regulations. It is company policy to proactively promote compliance with all such laws, rules and regulations, including insider trading laws and rules with particular emphasis as follows:

(i) Antitrust

The antitrust laws of the United States and similar laws in other countries are designed to prohibit agreements among companies that fix prices, divide markets, limit production or otherwise impede or destroy market forces. It is company policy to adhere to the letter and spirit of these laws. Some of the most serious antitrust offenses are agreements between competitors in restraint of trade, such as agreements to fix prices, or to allocate customers, territories or markets. Any such agreement--even an unwritten, informal understanding--may be unlawful regardless of its commercial reasonableness.

Relationships with customers and suppliers can also be subject to a number of antitrust prohibitions, particularly attempts to restrict customer's reselling activity through resale price maintenance. Other activities that create antitrust problems are discrimination in terms and services offered to customers, exclusive dealings and tie-in sales.

The consequences for CPAC and its personnel for not complying with the antitrust laws are extremely serious. Violation of some antitrust provisions is a felony in the United States and can lead to fines and imprisonment for the individuals involved and to even heavier fines for the company. Moreover, even in the absence of criminal prosecution, civil antitrust suits may be brought to recover treble damages and attorneys' fees.

Whenever you have any doubt as to whether a contemplated action may raise issues under the antitrust laws you should consult the chief executive officer of the division or subsidiary where you work and, if appropriate, CPAC's chief financial officer.

(ii) Insider Trading

On occasion you may have information about CPAC or other public companies with which CPAC does business or is negotiating that is "non-public"--that is, not known to the public, such as interim earnings figures, possible acquisitions or divestments, or marketing plans for the introduction of a new product.

Information is considered to be non-public until it has been adequately disclosed to the public, i.e. the information has been publicly disclosed and adequate time has passed for the securities market to digest the information. If this non-public information is "material"--that is, if it might affect a decision to buy, sell or hold CPAC or the other company's stock or affect the market for such stock--then under the securities laws of the United States and company policy:

- You must not trade in CPAC stock or securities of the other firm to which the material non-public information relates;
- You must not use such non-public information as an opportunity for personal gain for you or others;
- You must not disclose such non-public information to persons outside CPAC;
- You must not needlessly discuss such non-public information with persons inside CPAC;
- Personnel with knowledge of non-public information should exercise extreme diligence to maintain it in confidence and must not trade in CPAC stock or the stock, bonds or other securities of any other company involved before the non-public information is announced to the public and for a reasonable period of time thereafter.

If you leave CPAC, your obligation to maintain the confidentiality of any such non-public information continues until that information has been adequately disclosed to the public.

If you have a question as to whether such non-public information has been adequately disclosed to the public, you must contact CPAC's chief financial officer and abstain from trading in the affected securities or disclosing the information until you have been informed that the information is not material or has been publicly disclosed and digested.

For further information about restrictions on securities trading and the use of non-public information, please refer to the "CPAC Insider Trading Policy and Procedures."

(iii) Dealings with Government Officials

No one should seek to influence any government employee's judgment or conduct by promises of gifts or loans or by any unlawful inducement.

Thus it is important that you not provide any gift, entertainment or other thing of value to a government employee. Any exceptions must be pre-cleared with CPAC's senior management.

In addition, certain lobbying laws may require the company and/or its personnel to register and report as a lobbyist if a CPAC person communicates with a government employee for the purpose of influencing legislation or certain other official actions. If you are engaged in any such activity, you must consult with CPAC's senior management.

CPAC's commitment to dealing legally and ethically with governmental officials applies worldwide. Company policy and the law prohibit us from giving or offering to give money or anything of value--whether in cash or not, or whether directly or indirectly (e.g. through others), to any foreign official to induce that official to effect any government act or decision or to assist the company in obtaining or retaining business. To ensure that you do not violate the standard, it is the company's policy that, except for

legally mandated fees, (e.g. required permit or license fees), no payments or gifts related to the company's business activities will be made to foreign officials, directly or indirectly, unless approved in advance by CPAC's senior management.

Always be direct and honest in dealings and communications with government employees. Any knowing or willful false or misleading statements to government employees (oral or written) and particularly any false statement under oath can expose the company and its personnel to substantial penalties.

For more detailed guidance on the company's policy in these areas, see discussion under the heading "CPAC, Inc. Foreign Practices Act."

(iv) Political Activities

No funds or assets of the company may be used for contributions to any political party or candidate, whether federal, state or local, in the United States or abroad. This prohibition covers not only direct contributions, but also indirect assistance or support through buying tickets to political fund-raising events or furnishing goods, services or equipment for political fund-raising or other campaign purposes. The prohibition applies only to the use of corporate funds or assets for political purposes and is not meant to discourage you from making personal contributions to the candidate or party of your choice.

The company is prohibited from compensating or reimbursing any CPAC people or individuals associated with the company (including outside lobbyists), directly or indirectly, in any form, for political contributions that these persons intend to make or have made.

Federal Election Law prohibits contributions from a company in connection with a Federal election. States and other political subdivisions may have similar prohibitions. A political contribution includes both direct (i.e. money) and in kind contributions. In kind contributions include the purchase of fund raising tickets, contribution of product, volunteer work by CPAC people within normal business hours and the use of CPAC facilities for fund raising or political purposes. If you have a question regarding an in kind contribution, please contact CPAC's senior management.

Individual CPAC people remain free to make personal contributions to candidates or parties of their choice. A personal contribution is the responsibility of the individual person. CPAC has no responsibility for or obligation with respect to a personal contribution. Further, a personal contribution shall not be made with the intention of assisting CPAC or one of its operating companies in obtaining or retaining business.

(v) International Transactions

In the conduct of both its domestic and overseas operations, CPAC fully complies with all applicable U.S. laws governing imports, exports and the conduct of business with non-U.S. entities. These laws contain limitations on the types of products that may be imported into the United States and the manner of importation. They also prohibit exports to, and most other transactions with, countries that are boycotted by the United States as well as cooperation with boycotts of countries that are not boycotted by the

United States. Any questions on these issues should be directed to CPAC's senior management.

(vi) Unfair Competition Rules

CPAC believes its confidential proprietary information is an important asset in the operation of its business and prohibits the unauthorized use or disclosure of this information. CPAC also respects the property rights of other companies to their proprietary information and consequently requires all personnel to comply with both the spirit and letter of U.S. and foreign laws and regulations protecting such rights. CPAC's success is dependent upon the strict adherence by all personnel to this policy.

Collecting information on our competitors from legitimate sources to evaluate the relative merits of their products, services and marketing methods is proper and often necessary. However, when CPAC has been provided information on a confidential basis to evaluate a possible acquisition, product or business opportunity, that information may not be used for any other purpose. Specifically, such information may not be disclosed to other CPAC personnel who are not involved in the evaluation, to customers or to any other individuals. Also such information may not be used in connection with any development, marketing or manufacturing programs within the company.

(vii) Gifts, Favors and Entertainment

CPAC's objective is to compete in the marketplace on the basis of superior products, superior service and competitive prices. No payment in any form shall be made directly or indirectly to anyone for the purpose of obtaining or retaining business or to obtain any other favorable action. No gifts should be accepted from a supplier, vendor or customer unless the gift has insubstantial value and a refusal to accept it would be discourteous or otherwise harmful to CPAC. Personnel must receive approval from their supervisors before they accept any gift having a value of over \$25.00. This policy applies equally to giving gifts to suppliers or vendors or non-governmental customers (see the above discussion of gifts to governmental representatives).

Appropriate business entertainment of non-government employees occurring in connection with business discussions or the development of business relationships is generally deemed appropriate. Such instances may include business related meals and trips, refreshments before or after a business meeting and an occasional athletic, theatrical or cultural event. Entertainment in any form that would likely result in a feeling or expectation of personal obligation should not be extended or accepted. This applies equally to the giving or receiving of entertainment.

(viii) Non-Discrimination

CPAC will aggressively provide equal opportunities to all employees and job applicants. CPAC will not discriminate against employees or potential employees because of race, color, religion, sex, sexual orientation, age, national origin or mental or physical handicaps. For a more complete discussion of company policy, see Handbook Policy No. 3.

(ix) Harassment

CPAC employees are expected to treat their colleagues and subordinates with respect and dignity. The abuse of the power and authority inherent in a supervisor/subordinate relationship, which results in inappropriate or coercive actions or comments of a sexual nature is considered harassment. Such behavior is not only unethical but also illegal. For a more complete discussion of company policy, see Handbook Policy No. 15.

B. Conflicts of Interest

A "conflict of interest" occurs when an individual's private interest interferes in any way--or even appears to interfere--with the interest of CPAC as a whole. The conflict situation can arise when an employee, officer or director takes action or has an interest that may make it difficult to perform his or her company work objectively and effectively. Conflicts of interest also arise when an employee, officer, director or member of his or her family receives improper personal benefits as a result of his or her position in the company. CPAC's officers, directors and employees should not have any financial or business relationship with suppliers, customers or competitors that might impair or even appear to impair, the independence of any judgment they may need to make on behalf of the company.

Therefore, unless CPAC's Board of Directors determines in a specific case that a relationship, service or interest does not impair, appear to impair nor prejudice the company, it is company policy that employees, directors and officers may not:

- Perform services or have a financial interest in a private company that is or may be a supplier, customer or competitor of the company.
- Perform services for or have a material interest in a publicly traded company that is, or may become, a supplier, customer or competitor of the company.
- Perform outside work or otherwise engage in any outside activity or enterprise that interferes in any way with job performance or creates a conflict with the company's best interest.

Company personnel are under a continuing obligation to disclose to their supervisors any situation which presents the possibility of a conflict or disparity of interest between the person and the company. Disclosure of any potential conflict is the key to remaining in full compliance with this policy.

C. Corporate Opportunities

Employees, officers and directors are prohibited from:

- taking for themselves personally, opportunities that are discovered through the use of corporate property, information or position;
- using corporate property, information, or position for personal gain;
- competing with the company.

#### D. Confidentiality

CPAC's trade secrets, its proprietary information and much of its internal information are valuable assets. Protection of this information, including maintaining its secrecy, plays a vital role in our continued growth and ability to compete.

CPAC's proprietary information and trade secrets may consist of any formula, design, device or information that is used in our business and that gives CPAC an opportunity to obtain an advantage over our competitors. CPAC's trade secrets and proprietary information are not always of a technical nature. Such information can also include business research, new product plans, strategic objectives, any unpublished financial or pricing information, employee, customer and vendor lists and information regarding customer requirements, references, business habits and plans. This list, while not complete, suggests a wide variety of information that needs to be safeguarded.

Employees, officers and directors should maintain the confidentiality of information entrusted to them by the company or its customers except when disclosure is authorized or legally mandated. More specifically, your obligations with respect to CPAC's trade secrets and proprietary information are:

- Not to disclose this information to persons outside of CPAC;
- Not to use this information for your own benefit or the benefit of persons outside of CPAC;
- Not to disclose this information to other CPAC employees except on a "need to know" or "need to use" basis, and then only with a strong statement that the information is a CPAC trade secret.

If you leave CPAC, your obligation to protect CPAC's trade secrets and proprietary information continues until the information becomes publicly available or CPAC no longer considers it a trade secret or proprietary. You should remember also that correspondence, printed matter, documents or records of any kind, specific process knowledge, procedures, special CPAC ways of doing things--whether confidential or not--are all the property of the company and must remain at CPAC. Of course, personal skills acquired or improved on the job are the personal assets of the one who leaves.

#### E. Fair Dealing

Each employee, officer and director must endeavor to deal fairly with the company's customers, suppliers, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any unfair dealing practice.

F. Internal Reports, Statements, Records; Protection and Proper Use of Company Assets

CPAC shall make and keep books, invoices, records and accounts that in reasonable detail accurately and fairly reflect the transaction and disposition of the assets of the company. Company personnel shall maintain accurate and fair records of transactions, time reports, expense accounts and other company records. The company has devised and maintains a system of internal controls sufficient to provide reasonable assurances the transactions are properly authorized, executed and recorded.

In this respect the following guidelines must be followed:

- No undisclosed, unrecorded, or "off book" funds or assets should be established for any purpose;
- No false or fictitious invoices should be paid or created;
- No false or artificial entries should be made or misleading reports issued;
- Assets and liabilities of the company shall be recognized and stated in accordance with the company's standard practices and generally accepted accounting principles.

All employees, officers and directors are obligated to protect the company's assets and insure their efficient use. Theft, carelessness and waste have a direct impact on the company's profitability. All company assets may only be used for legitimate business purposes. For further information on this subject, please refer to CPAC's Financial Integrity and Compliance Program.

G. Safety; Substance Abuse

The personal safety and health of each officer, employee and director of CPAC is of primary importance. The prevention of job related injuries and illness of such concern that it will be given precedence over operating productivity whenever necessary. The company will, to the best of its ability, provide all mechanical and physical facilities required for personal safety and health. Full cooperation and all safety and health matters, not only between supervisors and employees, but also between an employee and his fellow worker is required.

CPAC has a particular concern about drug and alcohol abuse since these can have a serious effect on an employee's productivity and job performance and may jeopardize the safety of the employee and his co-workers.

CPAC will conduct drug or alcohol screening tests as part of its pre-employment process and will conduct drug or alcohol screening tests:

- for employment in a safety sensitive position;
- for reasonable cause;
- for involvement in a work related accident.

For more information please refer to the Employee Handbook Policy on substance abuse for an extensive overview of the policy.

## H. Environment

The health and safety of our customers, our employees and the communities in which we operate is paramount in all that we do.

To demonstrate our resolve, CPAC is committed to reducing waste and minimizing the impact of our products and packaging on the environment. We are dedicated to recycling and other responsible methods of waste management. CPAC is committed to manufacturing, packaging and selling quality products to meet or exceed health and safety rules and regulations. CPAC will continue to improve its products and packaging and invest in innovations to protect the environment. In addition,

- CPAC is committed to operating our facilities safely and in a manner that is sensitive to employee and community conditions. CPAC will look ahead to improvements in our facilities and processes to further protect the environment;
- CPAC will make environmental issues and concerns an integral part of its business decisions and transactions.

Finally, we must each comply strictly with the letter and spirit of all applicable environmental laws and regulations and the public policies they represent. No director, officer or employee of the company has authority to engage in conduct that does not comply with this policy or to authorize such conduct by any other person. Anyone who has a concern, question or suggestion regarding our environment policy and implementing procedures should consult CPAC's Corporate Environmental Compliance Officer.

## I. Responsibility for Compliance

In accepting a position as an officer, director or employee of CPAC each of us becomes accountable for compliance with these standards of conduct and with the more detailed guidelines contained in CPAC's Employee Manual, its Insider Trading Policy and Procedures, Financial Integrity Compliance Program as well as other policies, procedures and guidelines prepared by our company and its subsidiaries and divisions. All supervisors are responsible for communicating these standards to employees for insuring that they understand and abide by them and for creating a climate where employees can discuss ethical and legal issues freely.

CPAC is committed to proactively promote ethical behavior. It encourages its employees to talk to supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation. Consequently:

- You are encouraged to seek guidance. This Code cannot provide definitive answers to all questions. There are in fact no easy answers to many ethical issues we face in our daily business activities. In many cases the right thing to do will be obvious but in more complex situations it may be difficult for an employee, officer or director to decide what to do. When an employee is faced with a tough, ethical decision or

whenever an employee has any doubts as to the right thing to do, he or she should bring such doubts and/or questions concerning company policy, including the guidelines described in this Code, to the attention of his or her direct supervisor or manager who may in turn refer such matter to the subsidiary or division's chief executive officer and/or chief financial officer who in turn may refer the matter to CPAC's chief executive officer, chief financial officer or to its legal counsel.

- You must report violations. If you know of or suspect a violation of the Code or other company guidelines you must immediately report that information to your immediate supervisor or in the alternative you should feel free to go directly to higher levels of management such as your subsidiary's or division's chief executive officer, chief financial officer or to CPAC's chief executive officer or chief financial officer.
- Violations will be investigated. All reported violations will be promptly investigated and will be treated confidentially to the extent possible. It is imperative that reporting persons not conduct their own investigations. Investigations may involve complex legal issues. Acting on your own may compromise the integrity of an investigation and adversely affect both you and CPAC.
- Disciplinary actions may be taken. The company intends to prevent the occurrence of conduct not in compliance with the Code or other CPAC business practice, guidelines and policies and to halt any such conduct that may occur as soon as reasonably possible after its discovery. CPAC people who violate the Code or other CPAC business practices and guidelines may be subject to disciplinary actions up to and including termination of employment. As with all matters involving disciplinary action, principles of fairness will apply.
- No Retaliation. No person will be disciplined or otherwise treated adversely for reporting violations of company policy, raising questions or making suggestions in good faith. Anyone who retaliates against someone who has reported a violation or raises a question in good faith will be subject to disciplinary action. Similarly, any person who intentionally makes false or misleading allegations may be subject to disciplinary action.

#### J. Waivers

No waiver of any provision of this Code ordinarily will be granted. Any waiver of this Code or any provision thereof may be granted only by the Board of Directors of the Company after satisfying itself that such a waiver is truly necessary and warranted. Any waiver so granted will be limited and qualified so that the Company and its shareholders are protected to the greatest extent possible. The Company will promptly disclose the fact of any such waiver to the Company's shareholders.

**CPAC, INC.****SUBSIDIARIES OF REGISTRANT**

<b><u>Company Name</u></b>	<b><u>State/Country of Incorporation</u></b>	<b><u>Percent Ownership</u></b>
PRS, Inc.	New York, U.S.A.	100
Allied Diagnostic Imaging Resources, Inc.	Delaware, U.S.A.	100
Trebla Chemical Company	Delaware, U.S.A.	100
CPAC Europe, N.V.	Belgium	98
CPAC Italia, S.r.l.	Italy	100
The Fuller Brush Company, Inc.	New York, U.S.A.	100
CPAC Africa (Pty) LTD	South Africa	80
CPAC Asia Imaging Products Limited	Thailand	80

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 33-85770, 333-39529, 333-13361, 333-87695, 333-87697, 333-46908, 333-69068, and 333-101102) and in the Registration Statements on Amendment No. 1 to Forms S-8 (Nos. 333-13365 and 333-67819) of CPAC, Inc. of our report dated May 23, 2003 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Rochester, New York

June 25, 2003

**Certificate pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of CPAC, Inc. ("CPAC") on Form 10-K for the fiscal year ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas N. Hendrickson, Chief Executive Officer of CPAC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of CPAC, Inc.

/s/ Thomas N. Hendrickson  
Thomas N. Hendrickson  
President and Chief Executive Officer  
June 25, 2003

**A signed original of this written statement required by Section 906  
has been provided to CPAC, Inc. and will be retained by CPAC, Inc. and furnished  
to the Securities and Exchange Commission or its staff upon request.**

**Certificate pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of CPAC, Inc. ("CPAC") on Form 10-K for the fiscal year ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Weldgen, Chief Financial Officer of CPAC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of CPAC, Inc.

/s/ Thomas J. Weldgen  
Thomas J. Weldgen  
Vice President Finance and Chief Financial Officer  
June 25, 2003

**A signed original of this written statement required by Section 906  
has been provided to CPAC, Inc. and will be retained by CPAC, Inc. and furnished  
to the Securities and Exchange Commission or its staff upon request.**

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