

CPAC, INC

CELEBRATING
35 YEARS

1969 - 2004

ANNUAL REPORT 2004

TO OUR SHAREHOLDERS, EMPLOYEES, CUSTOMERS, AND VENDORS:

CPAC, Inc. began its 35th anniversary year on March 27, 2004. The Company today is vastly different from Computerized Pollution Abatement Corporation, the small equipment manufacturing concern founded in 1969 that would later become CPAC, Inc.

We began as a silver recovery company, and transitioned in the 1980's to an Imaging chemical company. Ten years ago, we recognized that the coming digital revolution would have an enormous impact on our business. With the acquisition of The Fuller Brush Company, we diversified into a chemical company serving two industries: Cleaning and Personal Care, and Imaging. Since 1969 we have made quality products, backed them with superior customer service, and created many opportunities for creative, hard-working people to find success and satisfaction working in CPAC companies. We have competed successfully and held our own against major players in both our industries. This success is the direct result of the ingenuity, drive, and dedication of our employees.

The diversification strategy we embarked upon a decade ago first resulted in the acquisition of a stable, recognized brand (Fuller Brush) in an industry unlikely to be affected by radical technological changes. Now we are engaged in yet another major transition in bringing the Fuller Brush brand to the retail environment. Our challenge is to reach a broader customer base and raise brand awareness. We have chosen to do so through our retail initiative.

For the fiscal year ended March 31, 2004, CPAC, Inc. sales were \$90.0 million with a net loss of \$(3.35) million, or \$(0.68) per diluted share. This compares to sales of

\$95.3 million and net income, prior to the FY '03 cumulative effect accounting adjustment of \$6.3 million, of \$2.0 million or \$0.40 per diluted share for the previous full fiscal year. Please note that these results include an after-tax charge of \$0.15 per diluted share for the Imaging restructuring initiative, an after-tax charge of \$0.12 per diluted share for equity in losses from TURA (now required to be recognized due to a change in accounting resulting from our increased ownership), and an after-tax charge of \$0.47 per diluted share related to the recognition of an impairment loss on our investment in TURA. The sum of these items, \$0.74 per diluted share, contributed to the reported net loss of \$0.68 per diluted share.

The impairment charge related to our investment in TURA was agreed to by consensus, as TURA's financial difficulties are believed to be other than temporary. While cross-distribution agreements with TURA have brought us increased market opportunities, the changing worldwide Imaging marketplace, coupled with TURA's strained financial condition, makes the future economic benefits of this relationship uncertain at this time.

FULLER BRANDS FY '04

In the Fuller Brands Segment, which represents approximately 58% of CPAC sales this year, we took a number of steps to boost the recognition and awareness of the Fuller Brush brand, and subsequently our strength in the Cleaning and Personal Care industry. Over the past few years, The Fuller Brush Company has expanded into several new distribution channels. We've found ongoing success via the Internet and by placing our branded goods in the catalogs of other direct marketers. Our two-year relationship with QVC television home

shopping continues to grow, with a strong increase in sales to QVC over the previous year. As our direct sellers have known since 1906, the reputation and demonstration of our products are the keys to selling them successfully. The QVC broadcasts have taken the in-home demonstration to new levels of participation, with a potential audience of 85 million homes in the U.S. Finally, developing a wide selection of redesigned and repackaged products for sale to retail chains has required a significant investment of resources to prepare Fuller to compete successfully in the highly competitive retail environment. We are in the early stages of establishing "Fuller Brush Cleaning Centers" in select national and regional retail and grocery chains and independent outlets. These channels offer attractive potential for expansion.

Cleaning Technologies Group, Fuller Brands' commercial cleaning chemicals and hard goods operation, lost a major food store account which had a large impact on sales for the year. In August 2003, Doug Calvert was hired as President to guide the business into new areas of growth and opportunity. With more than 25 years in the industry, Mr. Calvert brings Fortune 500 experience and a record of top and bottom line results to CTG. He realigned the organization to focus on three primary areas of growth: national accounts, distributor sales, and U.S. General Services Administration (GSA) schedule business as a new channel. Over the year, CTG won significant contract extensions by targeting national accounts and retail chains. Ted Moon was hired as Vice President of Distributor Sales to broaden the customer base and expand distributor sales into new markets. He brings extensive sales leadership experience to the role, having held senior positions with Katy Industries and GOJO, important players in the commercial cleaning industry. In connection

with its third area of focus, CTG aggressively pursued GSA business for government procurement.

Stanley Home Products also hired a new President in July 2003. Fernando Morthera came with a career history in some of the top direct selling companies, to restore Stanley to its preeminent position as a provider of solutions for the home. Mr. Morthera and his team engaged a respected industry consultant to devise a new plan, to better motivate and compensate the thousands of independent representatives selling for Stanley Home Products. The plan provides improved income and career opportunities, and involved modifications to every aspect of Stanley's business, from sales and marketing literature, to computer programming, to customer service, field training, and accounting. The new plan was test launched in April 2004 in one area of the country and places increased emphasis on Stanley's new "Love Your Home / Home Solutions" brand positioning.

CPAC IMAGING FY '04

The CPAC Imaging Segment continued to adjust to the worldwide shift to digital technologies, responding aggressively to the demands of a changing marketplace, most notably through the closure of its St. Louis, MO chemical manufacturing plant. The costs associated with consolidating this operation into our Norcross, GA Imaging chemical manufacturing facility amounted to \$0.15 per diluted share in this fiscal year. We had expected to realize the initial efficiencies of this action in fiscal '04. However, the domestic Imaging chemical marketplace is contracting more rapidly than we had anticipated and, due to lower sales volumes, profit improvements tied to the consolidation are taking longer to materialize than expected. Our move into

Mexican and South American markets is beginning to replace lost domestic volume in the Norcross plant.

As we have stated, our long-range growth strategy in Imaging is tied to opportunities in international markets where traditional silver halide processes in Color Photographic, Health Care, and Graphic Arts are experiencing expansion. For example, CPAC Asia reported double-digit sales increases versus the prior year. CPAC Africa, the smallest of the international operations, continued its strong move into Health Care in the third quarter through a multi-year contract to supply chemistry under the CPAC Imaging label to a major distributor, and through other significant new agreements. This subsidiary is on track to achieve a 50% increase in sales in FY '05.

FULLER BRANDS FY '05

Under the leadership and direction of Fuller Brands President Bob Gey, management has established several growth objectives for each of its three operations. I'd like to describe those that have been assigned the highest priority.

For The Fuller Brush Company, considerable emphasis will be placed on broadening the retail initiative. Our recent market research shows that respondents associate Fuller Brush with high quality products. Its brand image is one of a dependable, tried and true, trustworthy company, but many respondents don't know where to buy the products. These findings and others strongly support our investment and move into the retail channel. At this writing, our products are in place in numerous retail outlets nationwide, including an East Coast chain with more than 250 locations. Preliminary results have been mostly positive, and have led to

modifications to make the program even more attractive to new prospects.

Cleaning Technologies Group is continuing efforts to expand its national accounts business in multiple classes of trade to drive sales in nontraditional segments. CTG management is working with regional building service contractors and national contracting management companies to supply a labor component. This moves CTG from being a provider of floor care products to a full service floor care program provider, which is key in winning large national accounts business. Building strong relationships with these contracting companies also provides access to their existing customers. In response to a ground swell of interest about environmental responsibility, CTG has just introduced and will be expanding its line of Green Seal certified environmentally sensitive offerings. From its beginnings, CPAC, Inc. has always been a leader in environmental products and CTG intends to follow that example with the introduction of cleaning products made with key ingredients such as hydrogen peroxide and citrus oil. Other innovations for FY '05 include floor finishes that require significantly less labor to maintain, providing a major economic incentive to the customer. Its GSA program will launch in FY '05 with as many as 400 products available to Federal government buyers.

Stanley Home Products will continue to promote its new direction by strongly positioning its products to solve specific problems all around the home. This will be communicated through a redesign of labels and packaging that supports the "problem-solution" message; by enhancing the allure of its business opportunity through an aggressive new product launch schedule; and a wider roll-out of the improved compensation plan. These efforts are

designed to make Stanley a more compelling choice for today's sellers and customers.

CPAC IMAGING FY '05

Industry analysts do not predict an upswing in domestic demand for traditional silver halide products in any of the markets we serve, although certain categories such as single-use cameras and photographic paper may remain steady. Sales of CPAC's Imaging products continue to be impacted by the shift to digital technologies, particularly in the Health Care sector. Yet the digital conversion presents a new, if smaller, set of opportunities for us. Digital labs still primarily use photographic paper to output their prints, and the chemistries made for analog equipment are not optimal for use with digital equipment. CPAC Imaging will thus introduce a line of chemistries specifically engineered to optimize prints from digital processors in FY '05, along with other niche products that meet the specific needs of certain equipment user groups. While other, larger chemical manufacturers are looking for ways to exit the business as its profitability wanes, we continue to innovate and meet the changing needs of our customers.

Our U.S. manufacturing entities are increasingly exploring new exporting opportunities to drive volume, and reporting early success in Mexico and South America. Last year we established a warehouse in Mexico and began cultivating customers there. In May 2004 we took this project to the next level with a CPAC Imaging business office based in Mexico City and staffed by independent sales agents. We have also signed supply agreements with a number of major photo chains in South America, and hope to duplicate our successful Mexican model in other parts of the Americas.

Regarding the consolidation of our U.S. chemical manufacturing entities, we will look for ways to wring further efficiencies and thus savings from the newly combined operation. Internationally, the management team led by Steve Baune, President of CPAC Imaging, Worldwide, continues to evaluate opportunities in developing regions or in places of the world where we do not yet have a significant presence.

CORPORATE GOVERNANCE

Stephen J. Carl, Esq., Chief Operating Officer of Clover Capital Management, Inc. based in Pittsford, NY and José J. Coronas, a general partner in Trillium Group, a Rochester, NY-based venture capital firm, joined our Board of Directors in FY '04. Outside directors now occupy four of the six seats and these four comprise our newly formed Nominating and Governance Committee.

CONCLUSION

The Board and senior management teams believe that the restructuring and repositioning activities of both our Fuller Brands and Imaging Segments will ultimately prove successful, yet recognize that they are not without substantial risks. Throughout this period of change, our goal remains to enhance shareholder value. The reward for all will be a stronger company with a brighter future for the long term.

Sincerely,



Thomas N. Hendrickson
President and Chief Executive Officer