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ANNUAL REPORT 2005

**TO OUR SHAREHOLDERS, EMPLOYEES,
CUSTOMERS, AND VENDORS:**

Over the past several years we have developed and implemented strategies for long-term growth that have required some radical changes in the way we do business. In Imaging, the increasingly digital global market still requires the traditional chemical products we make, although demand is shifting. For the major volume that remains, we seek to become the global leader in the manufacture and distribution of all Imaging chemical formulations. Our challenge is to rationalize our assets such that CPAC's worldwide capacity is adjusted to maintain the current business and meet specific new opportunities. In Cleaning and Personal Care (Fuller Brands), we remain committed to capitalizing on the intrinsic value of our legendary Fuller Brush brand by taking it to consumers where they shop today, on the Internet, via television (QVC) and in retail store channels. This focus has required major investments in packaging, merchandising expertise, market research, and product development.

Fiscal 2005 brought some noteworthy achievements and positive steps toward realizing our long-range goals, but it was not without setbacks. We expected these transition years to be challenging as we instituted strategic marketing changes within our segments. Nevertheless, our direction remains clear and we will continue to move closer to our profit goals.

For the year ended March 31, 2005, CPAC, Inc. consolidated net sales were \$87.2 million, compared to \$90.0 million for the same period last year. Net loss for the fiscal year was \$(3.8) million or \$(0.78) per share. These results include an after tax charge of \$(0.10) for impairment of an investment, an after tax

charge of \$(0.05) for the final equity in losses of TURA, and an after tax charge of \$(0.65) for the recognition of a valuation reserve on consolidated deferred tax assets. These one time non-cash items contributed \$(0.80) of the reported net loss of \$(0.78) per share. The comparative 2004 results included an after tax charge of \$(0.15) for Imaging restructuring charges and \$(0.59) for the combination of impairment charge and equity in losses of TURA. These one time non-cash items amounted to \$(0.74) per share included in the net loss of \$(3.4) million or \$(0.68) per share.

Fuller Brands Segment

For the full year, the Fuller Brands segment achieved modest sales growth of 1% over prior year, resulting from a year-over-year sales increase of \$3.6 million or 18% at The Fuller Brush Company, the thrust coming from continued growth in direct-to-consumer television sales. CTG and Stanley Home Products reported full-year sales declines of 8% and 14% respectively. Operating income in the segment was \$1.3 million, an increase of 14% over prior year.

The Fuller Brands segment consists of a highly diverse set of "mini business profit centers." In total, there are twelve distinct channels and more than 2,700 products in the segment. Within The Fuller Brush Company, three channels offer the greatest opportunity for growth: Television Home Shopping, Retail Stores, and Custom Brush.

In the heyday of door-to-door selling, product demonstration was critical to a successful sale. Television home shopping refined the demonstration process, enabling consumers to shop conveniently and privately anytime they choose. Fuller Brush sales to QVC increased \$3.4 million in FY 05, a direct result

of increased air time and the continued flow of new products. In FY 06 we will invest further in aggressive product development to leverage the Fuller Brush brand to keep viewers purchasing our products. As a result of our success, we have strengthened our presence on QVC.com, a web-based complement to the televised demonstrations.

While television shopping is a growing success, we recognize that the greatest opportunity to reach consumers is through direct retail sales. Fuller Brush launched its Retail Stores initiative in 2003, marketing its products first in the specialty retail and grocery channels. We tested the program in its early stages before moving ahead toward national presence. Currently Fuller Brush products are sold in more than 1,800 stores representing 17 national and regional retailers including Stop & Shop, Mills Fleet Farm, Dierbergs and Grossman's Home Centers. To differentiate itself, Fuller is positioned as a full line supplier of premium brand products displayed in a "cleaning center" concept. We will capitalize on Fuller Brush's 100th anniversary (1906-2006) this year to increase brand awareness among targeted accounts, and will develop anniversary ads and point-of-purchase materials for our retail partners. All of this is geared toward creating and strengthening brand equity among new buyers.

Fuller Brush remains well known for its high quality brushes for home and commercial use. Our Custom Brush division develops specialized brushes and brush components (strip and coil type brushes) for commercial and industrial applications. Sales in this profitable channel dipped slightly in FY 05 due to a change in requirements from one large OEM customer but, excluding that account, sales grew more than

13%. The food processing and industrial markets are targeted as growth areas for the business. In FY 05 we invested \$500,000 in high-speed brush making equipment, and are now expanding domestic coverage through manufacturer's representative agreements to enhance our competitiveness and drive growth.

The two other divisions in the Fuller Brands segment – Cleaning Technologies Group (CTG) and Stanley Home Products – have continued to struggle with their growth strategies, but there are success stories within each business unit that indicate we are moving in the right direction.

Following a trend in the commercial cleaning industry, CTG has begun a private label initiative offering select, high-volume distributors the opportunity to sell its comprehensive product line under the distributor's custom brand. CTG's strategy to market products to a significant new class of customers – building service contractors – is resulting in many field tests for major pieces of business. Sales to Lagasse, the largest wholesaler of sanitary maintenance products in North America, increased by 14% over prior year. We have recently increased the distributor sales force seven-fold through the engagement of manufacturer's representatives nationwide. We are in high-level discussions with a number of targeted national accounts and hope to bring one or more into the "win" column in FY 06. Earth-Gard™, our Green Seal®-certified line of environmentally responsible products for commercial cleaning, is being expanded. This line has returned solid incremental sales growth, and Green Seal certification is now being extended to additional CTG brands.

At Stanley Home Products, we've completed a year of beta-testing the new compensation plan in one area of the country. As sellers and managers gain experience working under the new plan, we are beginning to see increased active dealer counts. We have also begun "green field" initiatives to recruit sellers in regions where we currently have no representation. In FY 05 we introduced a minimum of five new products per quarter, and made our catalog a more effective selling tool organized around the "Home Solutions" theme. The fundamental changes required to bring Stanley's business back to profitability are significant and numerous. We are pleased with these early results, but expect only small, yet steady improvements in the short-term.

CPAC Imaging Segment

Consolidated Imaging sales for the fiscal year were \$34.4 million versus \$37.9 million in the prior year, due to continued contraction in silver halide film usage and unfavorable currency exchange. In FY 05, residual expenses associated with the FY 04 Imaging restructuring, warehouse lease termination charges, and employee severance costs, contributed to the segment's operating loss of \$1.1 million compared to a loss of \$1.3 million last year.

Over ten years ago we anticipated the shift of silver halide to digital Imaging and began to diversify into Cleaning and Personal Care chemical markets, which now comprise over 60% of our business. The technology revolution is responsible for much of the decline in Imaging chemical sales. This trend is especially evident in film chemistry (image capture), although paper chemistry (image output) has not fallen as rapidly and is even growing for some applications. The result has been that many Imaging distributors and

end-users have consolidated, retooled their operations to compete in digital, or exited the business altogether. Sales in domestic markets where digital conversion is most rapid are expected to continue. For example, CPAC Asia posted its fifth consecutive record year and CPAC Africa doubled its sales over the prior year. Ultimately, however, silver halide business will contract in aggregate, and we will continue to modify our asset portfolio to match market trends.

Without question, digital technologies have impacted all competitors in Imaging chemicals. Ilford, AgfaPhoto, TURA, and Ferrania, each a nearly 100-year-old Imaging company, have all filed for bankruptcy since 2004. We too have made significant business adjustments – including plant consolidation and job cuts – to take costs out of operations and balance domestic supply with demand. The ongoing execution of these initiatives has enabled us to compete more effectively, albeit much less profitably, because of the sales downturn.

As with any evolving industry, opportunities exist to supply a smaller, but loyal, customer base when one has both capabilities and products. As other competitors leave the business or redirect resources to digital, we are positioning our global Imaging operations to become the preferred outsource and brand-name provider of chemistry. For example, in FY 05 we completed a move into a larger facility in South Africa in response to an expansion in private-label medical accounts. In Latin America, we achieved a double-digit sales growth target in FY 05. And we are close to opening a leased 30,000 ft² plant in Sijiu, China where we will produce CPAC-branded and private label photo chemicals for that market. We have also begun the process of converting our Imaging plants to support non-Imaging chemical

manufacturing. For example, in Thailand we will soon begin repackaging several of Fuller's personal care formulas for sale into the Asian spa and beauty center market. Our European facilities also are investigating outsource manufacturing of cleaning products. Through a combination of increased Imaging manufacturing through outsourcing and the production of other chemical products, we expect to increase asset utilization at all existing facilities.

Corporate Governance

John R. Prann, Jr., retired President and CEO, Katy Industries, Inc. and William M. Carpenter, Managing Director of UniCorp Ventures, LLC, joined our Board of Directors in FY 05. Mr. Prann serves on the Audit and Compensation committees; Mr. Carpenter on the Audit and Governance committees. Outside directors now occupy six of the eight seats. Visit www.cpac.com to review detailed press releases with backgrounds on the two new directors.

Conclusion

Thirty-five years ago we started with an innovative idea and a great deal of determination, and have built a company that now operates on four continents and employs more than 500 people. Our corporate milestone pales in comparison to the success and longevity of our Fuller Brush and Stanley Home Products businesses. In 2006, we celebrate not only Fuller's 100th anniversary, but Stanley's 75th. The Fuller Brush Company is moving to revitalize its brand to consumers in new channels. Stanley's place of honor among direct selling companies has been secured by the knowledge that "party plan" selling was introduced at Stanley Home Products, which is

now used all over the world by renowned direct selling companies and millions of people.

We remain confident that CPAC, Inc., like Fuller and Stanley, will be delivering products to customers for many years to come. We especially appreciate the support of shareholders who believe our strategy to return to profitability will be reflected in share price and shareholder value.

Sincerely,



Thomas N. Hendrickson
President and Chief Executive Officer