

TO OUR SHAREHOLDERS, EMPLOYEES, CUSTOMERS, AND VENDORS:

It is gratifying to share with you news and commentary about our recently completed fiscal year ending March 31, 2006. We believe that the Company has turned an important corner on its return to growth in sales and profitability, and that the strategies and initiatives we have instituted over the past several years are beginning to bear fruit.

We are pleased to recognize two significant milestones in our Fuller Brands segment: The Fuller Brush Company celebrates its 100th anniversary in 2006 and Stanley Home Products marks its 75th year in business. Their contributions to direct selling and home care are truly legendary. In 1906, Alfred Fuller became the original door-to-door salesman and in 1938, two former Fuller associates – Frank Stanley Beveridge and Catherine L. O’Brien – founded Stanley Home Products, the company that, in 1938, would introduce the now-ubiquitous “party plan” method of selling. We are understandably proud of our connection with these respected American companies and will work with them toward continued success in the years to come.

For the fiscal year ended March 31, 2006, CPAC, Inc. consolidated net sales were \$87.0 million, compared to \$87.2 million for the same period last year. Net income for the fiscal year was \$465,000 or \$0.09 per diluted share versus a net loss of (\$3.9 million) or (\$0.78) per diluted share.

Fuller Brands Segment

This segment is comprised of The Fuller Brush Company, Cleaning Technologies Group (CTG), and Stanley Home Products and contributes approximately 59.0% of total CPAC, Inc. revenue. Sales for the segment declined by 2.2% compared to prior year.

The Fuller Brush Company’s sales were down 7.0% compared to prior year, due to the loss of a major private label customer and lower sales through QVC, although its QVC business is tracking to achieve increased sales for FY ‘07. For example, the number of televised Fuller Brush airings continues to increase, and Fuller-branded products enjoy an ever-expanding presence on QVC.com. The team at Fuller is focused on keeping new and unique products in the television home shopping pipeline, and moving into new product categories with QVC’s encouragement. This strong relationship has resulted in recent nominations for QVC’s prestigious Rising Star and Customer Focus awards.

Fuller Brush currently sells its products through ten channels of distribution in addition to television home shopping. Two of these – Factory Outlet Stores and Internet Marketing – experienced double-digit sales growth this year. The success in Factory Outlet Stores is credited to a new relationship with Outlet Marketplace, an alternative to traditional outlet shopping in which a variety of name brand outlet stores exist under

one roof, with one centralized checkout for easy shopping. Fuller Brush is in Outlet Marketplace locations in Parma, OH; Souderton, PA; Pittsburgh, PA; and Wickliffe, OH. In addition, the company operates stand-alone Fuller Brush Factory Outlet Stores in outlet malls in Kittery, MN; St. Augustine, FL; Pigeon Forge, TN; Branson, MO; Hazelwood, MO; and Myrtle Beach, SC, and at our plant in Great Bend, KS. Internet sales were up last year on increased marketing to our direct selling e-commerce partner, Quixtar.

Fuller's private label association with Dometic Corporation, a leading international supplier of specialty products and refrigeration systems for the leisure, hotel, and medical markets, continues to develop and grow. As its sole chemical provider for recreational vehicle products, in FY '06 Fuller created unique bulk packaging for Dometic's holding tank product, giving it a distinct advantage over competitors.

In Fuller's Retail initiative, a number of new chains came on board including more than 500 locations of a national home improvement retailer that will soon display the dryer vent brush in its appliance departments. Fuller Brush products are available in more than 3,000 U.S. retail locations, nearly 70.0% more than last year at this time.

East coast grocery retailer Stop 'n Shop has been a strong contributor to growth in this channel. Early in FY '07, a Fuller Brush advertising insert was delivered to 1.2 million homes in seven newspapers serving the Boston, MA area where Stop 'n Shop has a strong foothold. In the fall,

another 2.5 million homes will be reached through this marketing method, and shortly thereafter regional television advertising will be added to create additional consumer demand for Fuller Brush products.

Through an aggressive push in FY '06 to expand its base into profitable new markets, the Custom Brush division has received orders from numerous new customers in businesses related to aerospace, agriculture, bakery, commercial door, lawn and turf, machine and tool, packaging and printing. The division has expanded its network of manufacturer's representatives and increased efforts at direct marketing.

Cleaning Technologies Group achieved a 6.0% revenue increase for the year, during which it jointly developed a major private label program for chemicals and hard goods with a national cleaning and environmental solutions provider. This account generated sales of more than \$1.0 million in FY '06, and has an aggressive timeframe for introducing product in additional channels, markets, and regions of the world. Maintaining its focus on private label initiatives, CTG is working with several other accounts and expects private label business to increase as a proportion of sales in FY '07.

Stanley Home Products' total net sales decreased 6.0% for the fiscal year, in part due to business interruptions in regions affected by Hurricane Katrina. Results were up in the region where Stanley's new compensation plan was introduced in FY '05, and the company continued the rollout

into a second geographic area in FY '06. This plan rewards organizational building and recruitment, and is now in place with 40.0% of the sales organization. Stanley continues to introduce innovative, highly demonstrable products that appeal to today's consumer and strengthen its party plan sales method. The company is exploring entry into a new channel of distribution, although this project is in its earliest stages.

CPAC Imaging Segment

This segment is comprised of Domestic and International manufacturing entities. In the U.S., chemicals are made at CPAC Imaging, Americas in Norcross, GA and equipment is manufactured at CPAC Equipment, Inc. in Leicester, NY. There are five other plants strategically located in Belgium, Italy, South Africa, Thailand, and China. Imaging contributes approximately 41.0% of total CPAC, Inc. revenue.

Fiscal year sales for the segment increased by approximately 2.7%. With sales up and better cost control measures in place throughout the segment, we are pleased to report that Imaging was profitable for the first time in three years.

As the worldwide Imaging industry evolves and large suppliers divest their assets in favor of digital products, we are making positive progress toward the goal of becoming the preferred global provider of branded and private label Imaging chemicals. Our competency is in chemical manufacturing, and our strategy is to utilize our global assets in the production of Imaging and non-Imaging products.

For example, in the U.S., demand for traditional film chemistry has diminished over the past few years as film sales have declined. However, the demand for photographic paper on which prints are made, and the chemistry that develops this paper, are much less affected. Our manufacturing plant in Norcross, GA has recently taken on new private label manufacturing opportunities on behalf of major Imaging competitors. We can also report that Mexico and Latin America continue to be good sources of sales growth from our Domestic operations.

In many global markets, film consumption is declining at a slower rate than in the U.S. At the same time, fewer companies are competing for this business, and so there is increasing opportunity for CPAC to sell traditional photochemistry in certain world markets. International sales grew by approximately 9.5% for the full year, with the Belgian and Italian units showing the greatest improvements.

Two years ago we expanded into larger quarters in South Africa, and CPAC Africa continues to show year-over-year growth. In FY '06 we established a manufacturing and distribution presence on mainland China. CPAC Imaging China is now beginning to make profit contributions, and this additional location provides even greater global reach for our private label partners. Its parent operation, CPAC Asia in Thailand, remains a star performer for Imaging, as well. For the first two months of FY '07, International sales are already up nearly 30.0% over prior year.

Over the long term, it is clear that the bulk of the Imaging industry's manufacturing will be focused on digital technologies. We envision continued sales for the traditional photographic products we make for several years, but to position CPAC, Inc. for a future with significantly reduced Imaging sales, our long-term growth strategy involves the manufacture and distribution of non-Imaging chemicals from our current Imaging plants.

For example, this year marked our first success in non-Imaging manufacturing as our Norcross plant began repackaging products for the U.S. division of a European company. This business is small but slowly growing, with prospects of adding other products from the same partner.

This is one case illustrating our strategy to leverage Imaging assets for non-Imaging manufacturing, but it is not the only one. The Imaging segment is working hand-in-hand with Fuller Brands to utilize Imaging's worldwide assets to help Fuller customers expand into global markets. The two segments recently forged a relationship between one of The Fuller Brush Company's private label accounts in the U.S. and CPAC Europe in Belgium to produce the same chemicals that are made in the U.S. by Fuller. Plans are in place for CPAC Europe to repackage bulk product initially, and later to produce the chemicals for this European partner's customers. Other such relationships that leverage Fuller's existing partnerships with multinational businesses are in the early stages. We are also planning to use our Imaging facilities to help

expand the sales of our own Fuller Brush-branded products into new geographic areas.

While the worldwide market for traditional Imaging products is consolidating and contracting overall, CPAC companies are commanding a greater share of the business. We are investigating, evaluating, and closing on opportunities – both in Imaging and non-Imaging markets – that utilize our worldwide assets.

Conclusion

At CPAC, Inc., we envision a future in which we succeed in both branded and private label manufacturing. We offer potential new partners an established global network to meet their manufacturing and distribution requirements, and we are developing a commendable track record of exceeding customers' expectations in private label and contract business. This business helps fill excess capacity in our plants, contributing to overhead absorption. The investments we are making today in our people and our capabilities will ensure that our Imaging and Fuller Brands businesses have the ability to operate either independently or in concert for the future. The products we manufacture may change, but the quality and integrity that are hallmarks of our Company remain a constant in all we do. Thank you for your continued support.

Sincerely,



Thomas N. Hendrickson



Thomas J. Weldgen