

Angelica Corporation Fiscal Year 2006 Annual Report

Delightful Service

IS THE CORNERSTONE OF OUR PLAN

PROVIDING
Delightful
Service ...

CREATES
Satisfied
Customers ...




DRIVING
Superior Financial
Performance ...

AND DELIVERING
Value
to Investors.

TO INCREASE ANGELICA'S LONG-TERM

Shareholder Value.



PROVIDING INNOVATIVE NEW PRODUCTS THAT BENEFIT
OUR CUSTOMERS AND THEIR PATIENTS IS
A KEY ELEMENT OF OUR DELIGHTFUL SERVICE STRATEGY.

Delightful
SERVICE
TO EVERY
customer
every day.

Angel Slider™ a product that helps caregivers more easily reposition their patients in bed, is a perfect example of our Delightful Service strategy, combining greater comfort for patients with fewer strains and other injuries for nursing personnel.

Delightful Service

Non-ambulatory patients require frequent repositioning. But traditional repositioning methods place great stress on caregivers' backs, arms and shoulders – a problem that has led many healthcare providers to adopt “no lift” policies. Angel Sliders™ solve that problem by reducing the force required to reposition patients by 40 percent to 60 percent. Moreover, traditional methods present cleaning challenges critical to infection control. Our launderable Angel Slider™ solves this issue.

Satisfied Customers

Our customers clearly recognize the benefits of Angel Sliders™. For example, at Northridge Hospital Medical Center in Northridge, California, feedback from 39 healthcare workers who attended an Angel Slider™ demonstration was 100 percent positive, with comments stressing ease of use, increased patient comfort, and convenience. As a result, Northridge chose Angel Slider™ as their primary patient repositioning product.

Real Value

The advantages of Angel Sliders™ have helped drive revenue growth since we introduced the product in July 2006. And as part of our overall Delightful Service strategy, valuable new products like Angel Slider™ enhance our reputation and make it easier for us to sign new customers.

Angelica is a leading provider of linen management services to the large and growing U.S. healthcare market.

The company delivers a complete array of textile rental products and services and linen management solutions to meet the needs of healthcare professionals and their patients at acute-care hospitals, outpatient clinics, surgical centers and long-term care facilities.

Angelica differentiates its services by delivering Delightful Service to every customer every day.

Delightful Service, which combines our relentless focus on maximizing both customer service and efficiency with an unparalleled multiple-service-center system, is the key element of our strategy to create value for our customers, employees, and shareholders.

Financial Highlights

| For Years Ended (Dollars in thousands, except per share amounts) | January 27, 2007 | January 28, 2006 | Percent Change |
|---|---------------------|---------------------|-------------------|
| Continuing Operations: | | | |
| Revenues | \$ 425,735 | \$ 418,357 | 1.8 |
| Gross margin | 14.5% | 12.9% | |
| Income from continuing operations | \$ 3,633 | \$ 2,319 | 56.7 |
| Basic per share | \$ 0.40 | \$ 0.26 | 53.8 |
| Diluted per share | \$ 0.39 | \$ 0.25 | 56.0 |
| Operating cash flow | \$ 4,169 | \$ 20,438 | (79.6) |
| Year-end Financial Position: | | | |
| Working capital of continuing operations | \$ 31,781 | \$ 28,497 | 11.5 |
| Current ratio | 1.4 to 1 | 1.4 to 1 | |
| Total debt | \$ 85,396 | \$ 85,415 | 0.0 |
| Total debt to total capitalization | 36.7% | 36.4% | |
| Shareholders' equity | \$ 147,546 | \$ 149,548 | (1.3) |
| Book value per share | \$ 16.00 | \$ 16.08 | (0.5) |
| Total assets | \$ 336,305 | \$ 331,428 | 1.5 |

After just the first full year of our Delightful Service initiative, our customers are experiencing the difference.

From a financial and operating perspective, fiscal 2006 was a year of progress.

We believe the

Delightful
SERVICE
TO EVERY
customer
every day.

lead indicators
and initial outcomes

indicate this is only the beginning.

Steve O'Hara
Chairman, President & CEO



Dear Fellow Shareholder:

There are many benchmarks against which investors measure us. Profitability, gross margin, and revenue growth are just a few. However, as managers of Angelica Corporation, we realize that these measures are simply the outcomes of our basic strategy of *“Delightful Service to Every Customer Every Day.”*

ANGELICA’S STRATEGY AT A GLANCE



The measurements of Delightful Service are more important to us as managers because we believe they foreshadow results of financial benchmarks yet to come. They are our lead indicators.

So how did we do in fiscal 2006 on “Delightful Service” measures?

Not bad for our first full year of our “Delightful Service” initiative, but there is still room for further improvement. The two most important measures in our annual survey of customers both showed significant improvement. Specifically,

1. “Willingness to recommend” scores rose 11 points to almost 91 percent of respondents willing to recommend us in fall 2006 versus 80 percent in fall 2005.
2. For overall customer satisfaction, 64 percent of customers rated us above average or superior in fall 2006 versus 50 percent in fall 2005.

This is terrific news for all of us, except perhaps our competition.

After just the first full year of implementing our Delightful Service initiative, our customers are already seeing the difference. Driving this improvement is our commitment to deliver customer orders on time and complete – not “mostly” complete. In the second half of fiscal 2006, we delivered 98.4 percent of orders complete. This is significant improvement, but we are still targeting 100 percent.

We recognize that patient satisfaction is the most important issue to healthcare providers, so we have increased the quality of our rental products and are uncompromising in our processing of these products. We’ve enlarged our standard bath towels, moved to higher thread count pillowcases and sheets, redesigned “patient friendly” gowns and launched a premium washcloth. The 2006 customer satisfaction survey was conducted when we were in the midst of rolling out these improved products, so we expect these initiatives to be reflected further in our customer ratings in 2007.

Delightful Service also means identifying customer needs and providing them with innovative, new solutions. In fiscal 2006, we introduced our exclusive Angel Slider™ launderable, patient repositioning product to reduce back strains among nurses. Testing at Georgia Tech showed that the force required from a nurse to move a 200 pound patient was reduced by 41 percent when using an

Angel Slider™. While raising their laundering costs only slightly, our customers can significantly reduce nursing injuries and worker’s compensation costs.

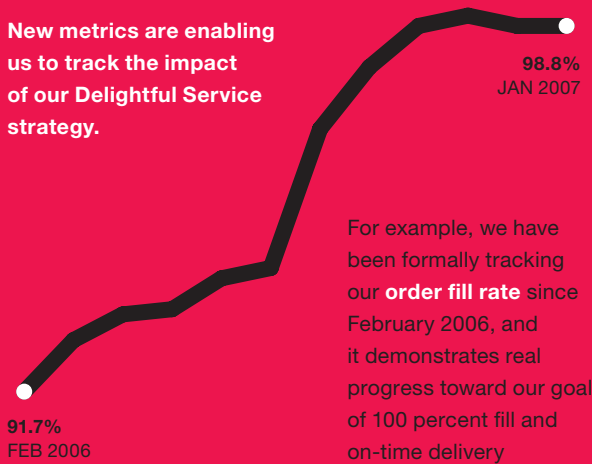
Along with striving for 100 percent complete on time delivery, and gaining the full benefit of fiscal 2006’s improved and new products, we plan further product initiatives, with more product upgrades and additional new products to better serve our customers in 2007. We will also work to achieve even tighter tolerances in our cleaning formulas, and increase inspections of finished products to insure top quality. We hope that the combination of these initiatives will result in even more delighted customers, and therefore higher customer satisfaction scores in our fiscal 2007 survey.

In the meantime, how has this Delightful Service initiative translated into our business results so far? We are pleased to report they are having the positive impact we anticipated. As expected, we reported continued gross margin progress throughout fiscal 2006, achieving a 15.0 percent gross margin in the second half of fiscal 2006, well above the 11.7 percent reported in the second half of fiscal 2005. This increase reflected the initial improvement in our basic operations behind our operations process improvement project, as well as improved pricing as customers rewarded our higher quality service with fair price increases.

PROVIDING
Delightful
Service ...

Product quality + on-time delivery/100% fill + zero defects + product innovation >> Delightful Service

New metrics are enabling us to track the impact of our Delightful Service strategy.



Delightful Service also means introducing higher-quality products, including:

- Enlarged bath towels
- Top-line thread count pillowcases and sheets
- Redesigned patient and IV gowns
- Premium washcloth

And we are providing our clients with new products that add value, including:

- Angel Sliders™ patient repositioning systems
- Angel Mats™ floor and back mats
- Microfiber cleaning kits

Lead indicators
we are providing Delightful Service

Fiscal 2006 Review of Results

For the twelve months ended January 27, 2007, revenues were \$425.7 million, a 1.8 percent increase from \$418.4 million in fiscal 2005. Organic growth from net new business additions and price increases contributed \$12.6 million of the increase, representing an organic growth rate of 3.5 percent. Fiscal 2005 acquisitions contributed \$11.4 million of the increase, but were more than offset by the loss of \$16.6 million of revenues due to the sale of non-healthcare customer accounts in fiscal 2005 and 2006. Total healthcare revenues in fiscal 2006 were \$411.3 million, up 6.6 percent from \$386.0 million in fiscal 2005.

Despite continued significant cost pressures in energy and wages, our total production cost for processing a pound of linen in fiscal 2006 increased only 0.9 percent from fiscal 2005 as we began to realize the benefits from our operations process improvement project. We continue to implement the Angelica Way best practices identified by this effort and hope to continue to offset inflationary pressures with improved productivity in fiscal 2007.

Delivery expense remained mostly flat in fiscal 2006 as higher diesel prices versus fiscal 2005 offset other savings. However, we did not complete our installation of Global Positioning System (GPS) units in all trucks or our route optimization software until early calendar

2007, so we expect to see improved delivery productivity in fiscal 2007.

The net result was a fiscal 2006 gross margin of 14.5 percent versus fiscal 2005's gross margin of 12.9 percent. However, as we discussed throughout fiscal 2006, the trend ending fiscal 2006 is much better than that at the end of fiscal 2005. Our pricing is starting to reflect the higher energy costs which seem to have stabilized at a new higher, post-Hurricane Katrina level, as well as higher labor costs driven by escalating entry-level wages throughout the country. In fact, many of the larger states in which we operate have already passed higher minimum wage legislation making any federal action on this issue anti-climatic with only a modest impact.

For the year, our SG&A was up slightly to 12.1 percent of revenues from fiscal 2005's 12.0 percent of revenues as consulting fees related to our operations process improvement project, as well as incentive compensation cost increases, offset savings elsewhere. We continue to look for SG&A efficiencies as we work to bring SG&A expenses as a percent of revenue to below 11.0 percent in fiscal 2008. Fiscal 2006 income from operations rose to \$9.3 million from \$6.3 million in fiscal 2005. Pre-tax income from continuing operations in fiscal 2006 rose to \$2.3 million from \$0.7 million in

PROVIDING

Delightful
Service ...

CREATES

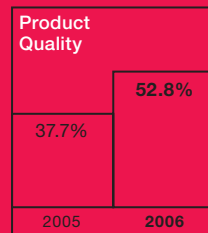
Satisfied
Customers ...

Delightful Service >> Customer satisfaction

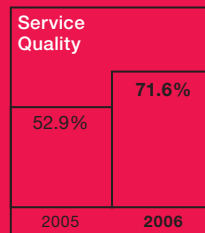
Delightful Service is driving significant improvements in customer satisfaction, as measured by the percent of customers ranking us above average or superior for:



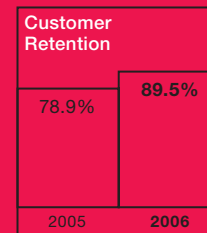
"From delivery service to customer service, Angelica has consistently met and exceeded our expectations."



"Your upgraded and innovative products go hand in hand with [our commitment to excellence], resulting in higher patient satisfaction."



"Linen is delivered consistently and the drivers are courteous and also make every effort to meet our needs."



"One factor in our decision to continue our agreement is the due diligence and great customer service provided by Angelica."



"I would like to take this opportunity to recommend Angelica to anyone looking for a quality healthcare linen provider."

Lead indicators
we are satisfying our customers

fiscal 2005. For reference, fiscal 2006 depreciation and amortization was \$19.6 million, about equal to fiscal 2005's \$19.5 million.

Net income from continuing operations in fiscal 2006 was \$3.6 million versus \$2.3 million in fiscal 2005.

Fiscal 2006 diluted earnings per share from continuing operations was \$0.39 versus \$0.25 in fiscal 2005.

We also made progress on our balance sheet in fiscal 2006. Despite adding \$7 million of additional linen into inventory to improve service, total debt remained at \$85.4 million in fiscal 2006. This allowed us to reduce our debt to EBITDA ratio slightly below our target 3.0 times, which is well within compliance of the 3.5 times ratio in our bank agreement.

From both a financial and operational standpoint, fiscal 2006 was a year of progress, but we believe the lead indicators of Delightful Service suggest it is only the beginning.

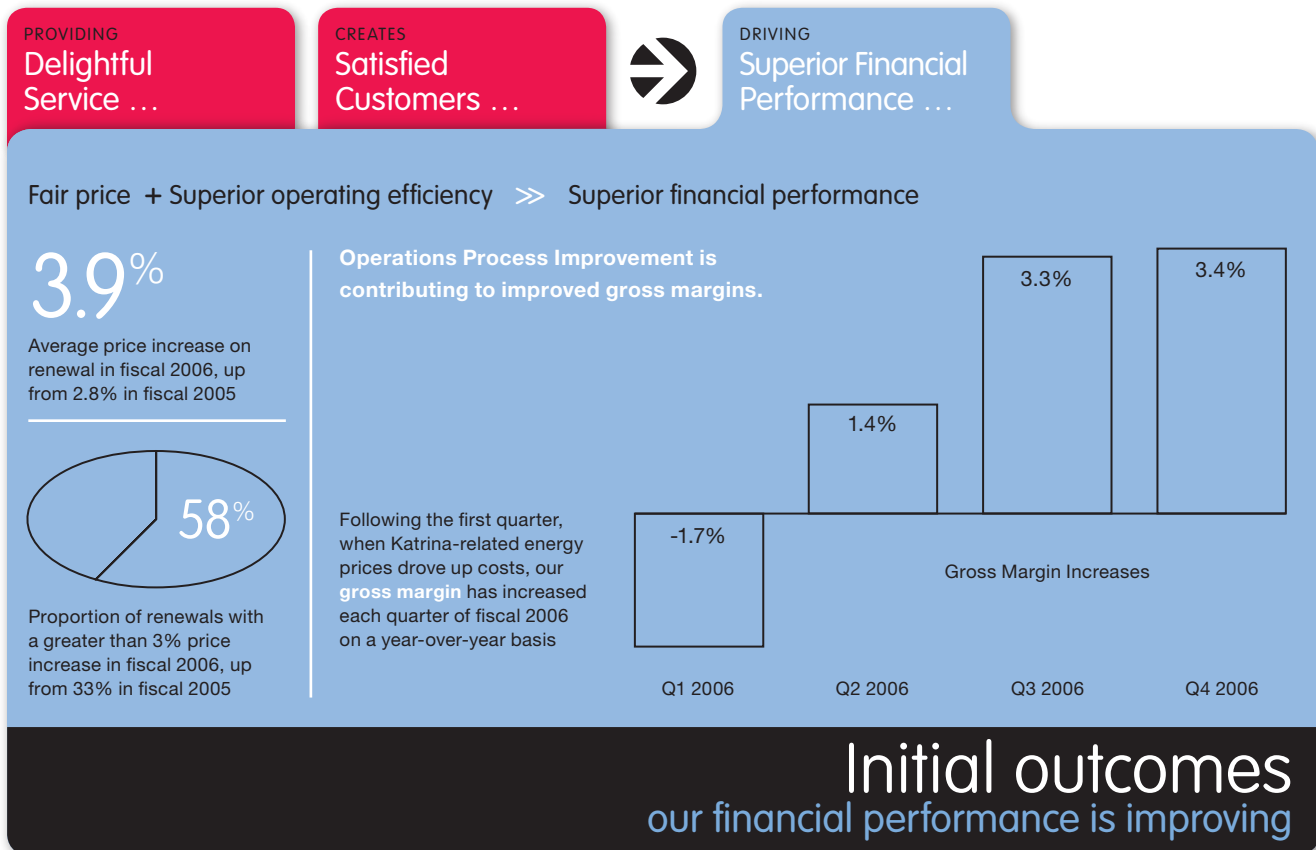
Looking Forward

We continue to target a 20 percent gross margin for Angelica and we expect to make significant progress towards that goal in fiscal 2007. We believe our Delightful Service strategy should sustain 7 percent to 10 percent annual organic growth, although we expect to realize about 5 percent in fiscal 2007 as some customers

choose to go to other providers rather than accept a reasonable price for our high quality service.

I am often asked if customers defecting for a lower price elsewhere bothers me. It does only to the extent that it signals we are not fully communicating to the customer our value proposition of higher product quality and customer service levels. For example, although we know that we shipped 98.4 percent of all orders complete and on time in the second half of fiscal 2006, less than two-thirds of our customers gave us ratings in the top two boxes (out of five) for on-time delivery in our annual survey. We believe that we have dramatically raised the bar for service level in this industry and we need to make sure customers recognize this superior level of quality. With linen expenditures typically representing less than 1 percent of a hospital's costs, there is absolutely no reason that a customer should not accept an inflationary price increase when we deliver Delightful Service. After all, we want the same thing ... improved patient satisfaction. However, we need to make sure we're communicating our improvements with all levels of hospital, long-term care and clinic management.

On the other hand, we also don't forget about customers that leave us for price. Twenty-three years ago when I was vice-president of marketing for Boston



Whaler boats, we used to say our best customer was one who had previously bought a cheap boat, since they could then appreciate the quality of a Boston Whaler boat. Similarly, some of our customers may have to leave us for a period of time to recognize the higher quality of our products and service and to accept that this superior service and quality is worth a reasonable price.

During fiscal 2007, on our various conference calls and market communications, we will try to provide specific guidance and we encourage those who are interested to listen in or review the information afterwards. However, the most important piece of information and guidance we can provide is simply this: we remain committed to executing our “Delightful Service to Every Customer Every Day” strategy, bringing innovative new product and service ideas to the market. We expect this strategy will yield above-average customer retention and fair price increases in line with inflation, enabling us to deliver the expected solid improvements in our financial performance.

There is one other commitment we believe in and will deliver against. We believe the cornerstone of Delightful Service is motivated, empowered and happy employees. As we execute our Delightful Service strategy, it starts with “people, family, talent and teams” and we plan to invest in these to deliver outstanding results.

A Final Thank You

In September, we welcomed John Quicke and Jim Henderson, of Steel Partners, to our Board of Directors. We look forward to working with Mr. Quicke and Mr. Henderson to build shareholder value.

At the same time, Dr. Bill Peck and Susan Elliott retired from our Board after 10 and 8 years of service, respectively. As former dean of Washington University Medical School, Dr. Peck was an outstanding resource for many years. As Chairman and Co-CEO of SSE, Inc., Ms. Elliott provided technical leadership as well as sound business judgment. We thank them for their years of service and wish them well in retirement.

Finally, thanks also to you, our shareholders, for your support as we build Angelica into a premier healthcare service provider. All of us at Angelica look forward to building a stronger Angelica through “Delightful Service” in fiscal 2007.

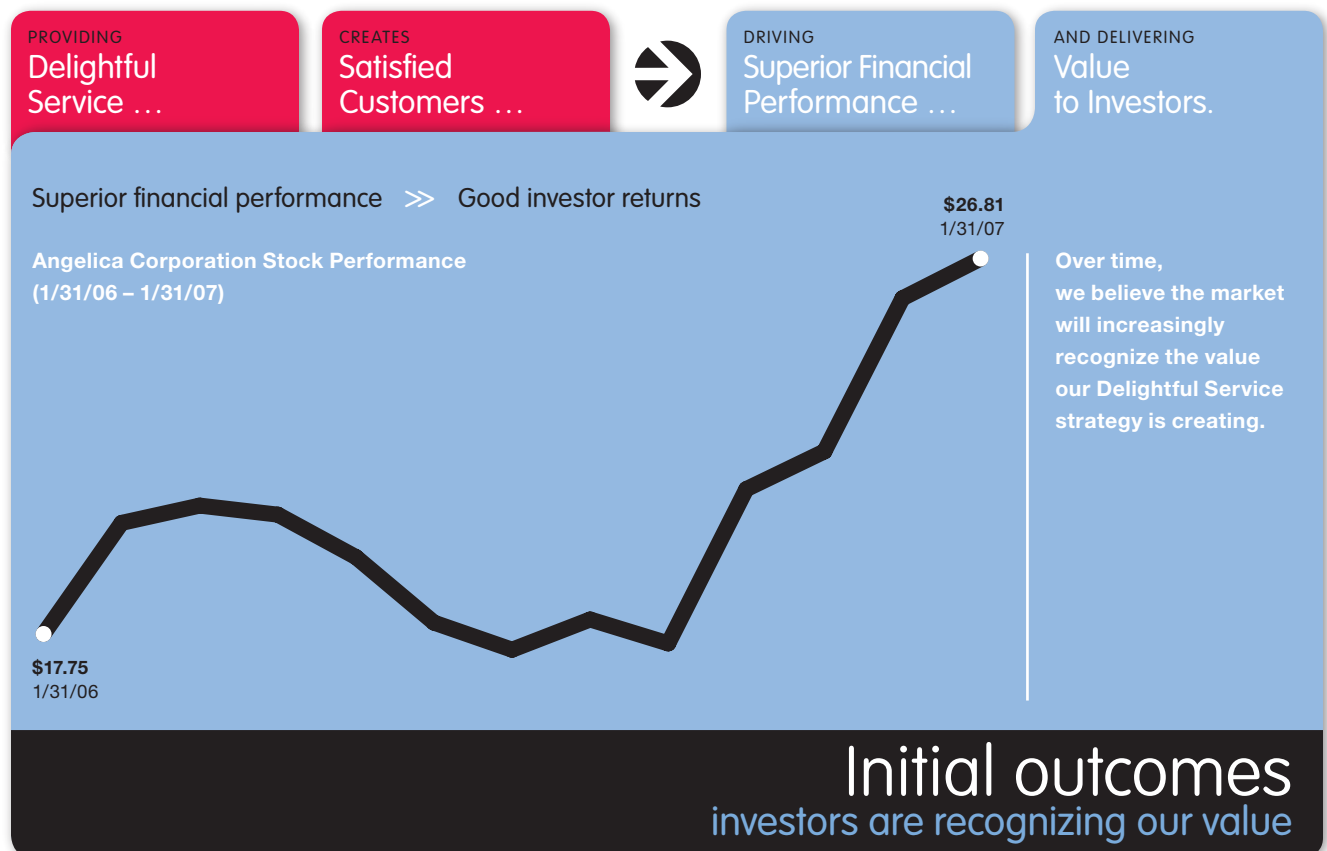
Sincerely,



Steve O'Hara

Chairman, President & CEO

May 7, 2007



BOARD OF DIRECTORS

James R. Henderson
Vice President of
Steel Partners, Ltd.
(2006, age 49)

Don W. Hubble
Retired Chairman, President
and Chief Executive Officer of
the Company
(1998, age 67)

Ronald J. Kruszewski
Lead Outside Director
Chairman and
Chief Executive Officer of
Stifel Financial Corp.
(2004, age 48)

Charles W. Mueller
Retired Chairman
of the Board of
Ameren Corporation
(1996, age 68)

Stephen M. O'Hara
Chairman, President and
Chief Executive Officer of
the Company
(2000, age 52)

John J. Quicke
Vice President of
Steel Partners, Ltd.
(2006, age 57)

Dr. Ronald N. Riner
President of
The Riner Group, Inc.
(2005, age 58)

Kelvin R. Westbrook
Chairman and
Chief Strategic Officer of
Millenium Digital Media LLC
(2001, age 51)

() Indicates first year as
a Director and current age.

COMMITTEES OF THE BOARD

Audit Committee
Charles W. Mueller*, Ronald N. Riner, Kelvin R. Westbrook

Compensation and Organization Committee
Kelvin R. Westbrook*, James R. Henderson, Ronald J. Kruszewski

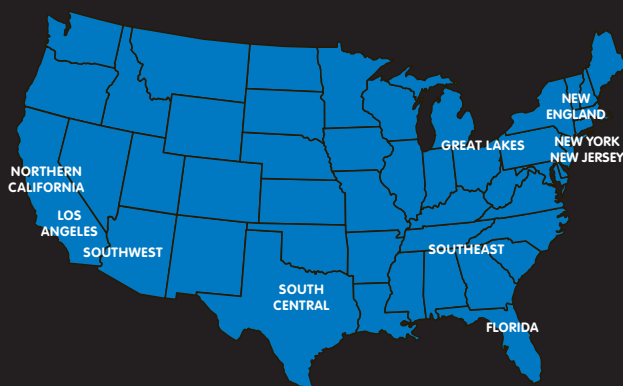
Corporate Governance and Nominating Committee
Charles W. Mueller*, Don W. Hubble, Ronald N. Riner

Special Finance Committee
Ronald J. Kruszewski*, Don W. Hubble, Stephen M. O'Hara

* Indicates Committee Chairman

Delightful
SERVICE
TO EVERY
customer
every day.

TO SUPPORT OUR INTENSE FOCUS ON DELIVERING
DELIGHTFUL SERVICE, ANGELICA SERVES ITS CUSTOMERS
THROUGH NINE MARKET AREAS STRATEGICALLY LOCATED
ACROSS THE UNITED STATES.



EACH MARKET IS HEADED BY A MARKET VICE PRESIDENT WITH
PRIMARY RESPONSIBILITY FOR SALES AND SERVICE.

Leonard Pulver, Jr.
Northern California

Kevin E. Nowak
Great Lakes

John Joyce
New England

Yelena Morri
Los Angeles

Twyla Gray
South Central

Ricardo C. Godoy
New York/New Jersey

Jaye S. Park
Southwest

William J. Forand
Southeast

Deno J. Krillies
Florida

CORPORATE OFFICERS

Stephen M. O'Hara
Chairman, President and
Chief Executive Officer
(2003, age 52)

John S. Olbrych
Senior Vice President and
Chief Administrative Officer
(2006, age 51)

Richard M. Oliva
Senior Vice President,
Sales and Service
(2002, age 47)

W. Russell Watson
Senior Vice President, Strategy,
Marketing and Sales Administration
(2000, age 43)

James W. Shaffer
Vice President and
Chief Financial Officer
(1999, age 54)

Steven L. Frey
Vice President,
General Counsel and Secretary
(1999, age 57)

E. Melton Davis
Vice President Operations
(2005, age 42)

Jon H. Holt
Treasurer
(2006, age 43)

Steven J. Mosetti
Corporate Controller
(2005, age 42)

() Indicates year first employed
and current age.

SHAREHOLDER INFORMATION

Investor Relations
Shareholder requests may be
directed to Investor Relations via
telephone at 314/854-3702

Independent Public Accountants
Deloitte & Touche LLP
St. Louis, Missouri

Stock Exchange: Symbol
NYSE: AGL

Transfer Agent, Registrar, Dividend Disbursing Agent
and Dividend Reinvestment Agent
UMB Bank

Communications concerning dividend checks, dividend reinvestment
plan, consolidation of accounts, amount of dividends paid, change
of address, lost stock certificates or transfer of stock ownership should
be directed to:

Stock Transfer Department
UMB Bank
Post Office Box 419064
Kansas City, Missouri 64141
800/884-4225

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Chesterfield, Missouri 63017
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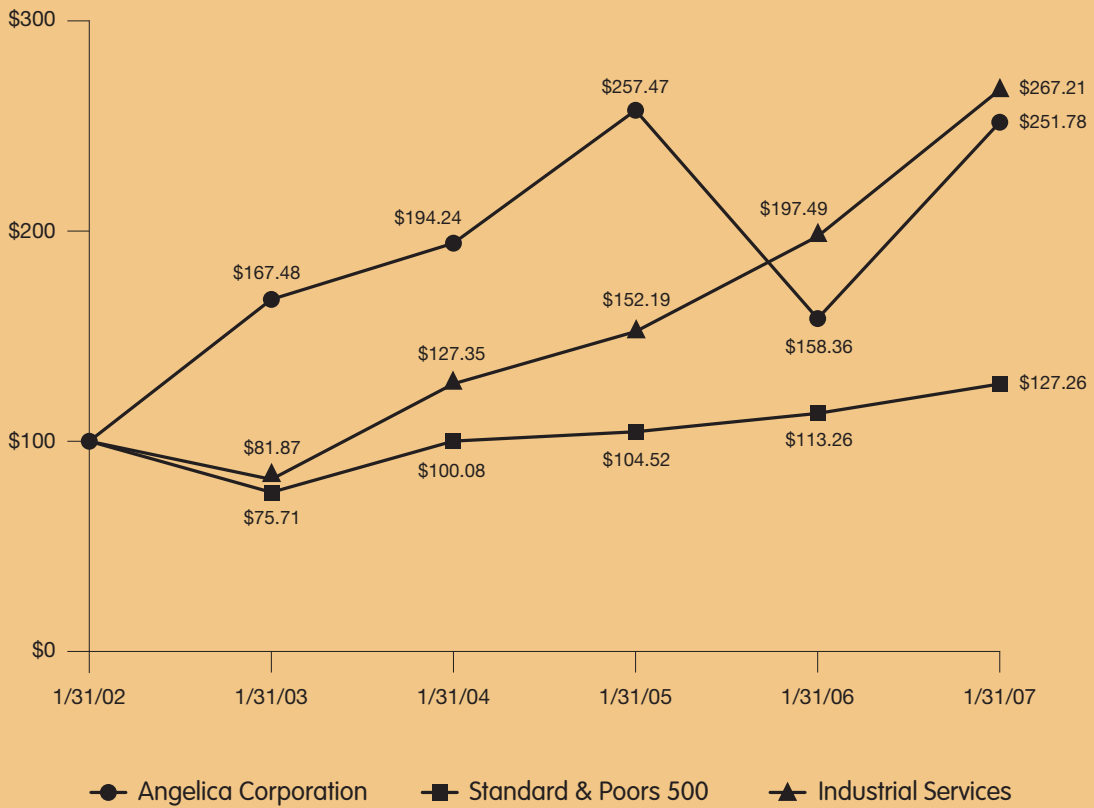
The Company timely submitted its annual certification by the Chief Executive Officer to the New York Stock Exchange (NYSE) within 30 days of its Annual Meeting of Shareholders in 2006. The certification stated the Company's compliance with the NYSE's corporate governance listing standards without qualification.

FIRST PAGE OF
FORM 10-K

LAST PAGE OF
FORM 10-K

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*

Angelica Corporation, Standard & Poors and Value Line Industrial Services Index
(Performance Results through 1/31/2007)



Assumes \$100 invested at the close of trading 1/02
in Angelica Corporation common stock, Standard & Poors 500, and Industrial Services.

* Cumulative total return assumes reinvestment of dividends.

Angelica®

Angelica Corporation
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