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KATY INDUSTRIES INC  
Form 8-K  
October 01, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

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

September 16, 2003

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Date of report (Date of Earliest Event Reported)

KATY INDUSTRIES, INC.  
(Exact name of Registrant as specified in Its Charter)

DELAWARE

1-5558

75-1277589

-----  
(State or other jurisdiction of  
incorporation)

-----  
(Commission File Number)

-----  
(I.R.S. Emplo  
Identification

765 Straits Turnpike, Middlebury, Connecticut 06762

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(Address of principal executive offices and zip code)

(203) 598-0397

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Registrant's telephone number, including area code

Item 2. Acquisition or Disposition of Assets.

On September 16, 2003, Katy Industries, Inc. ("Katy") consummated the sale (the "Duckback Sale") of substantially all of the assets of its subsidiary, Duckback Products, Inc. ("Duckback"). Katy sold Duckback to an unrelated party, Duckback Acquisition Corp. (an affiliate of Professional Paint, Inc.), for \$15,000,000, subject to a post-closing adjustment based on the working capital of Duckback as of the closing date. The sale price was determined by arms-length negotiation between the parties based on a variety of factors, including Duckback's profitability. This sale was part of a larger, previously disclosed, restructuring effort in which Katy is exiting non-core businesses.

The proceeds from the Duckback Sale were used to reduce Katy's long-term debt under its credit facility, in accordance with the terms thereof.

ITEM 7. Financial Statements, Pro Forma Financial Information and Exhibits

(b) Pro Forma Financial Information.

The following unaudited pro forma condensed consolidated balance sheet has been derived from the unaudited condensed consolidated balance sheet of Katy as of June 30, 2003 and gives effect to the Duckback Sale as if such sale had occurred on June 30, 2003. The following unaudited pro forma statements of operations have been derived from the audited consolidated statement of operations of Katy for the year ended December 31, 2002 and the unaudited

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condensed consolidated statement of operations of Katy for the six months ended June 30, 2003, and reflect the operations of Katy as if Duckback had been sold as of January 1, 2002.

The unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or financial position that would have resulted had the sale been consummated on the date indicated, nor do they represent a forecast thereof at any future date or for any future period. This pro forma information should be read in conjunction with Katy's 2002 Annual Report on Form 10-K.

### Pro Forma Condensed Consolidated Balance Sheet (Unaudited) (In thousands)

	As of June 30, 2003	
	Actual	Adjustments
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 6,673	\$ 15,842 (1)
	--	(15,842) (2)
Accounts receivable, net	65,365	(4,062) (1)
Inventory, net	58,975	(1,022) (1)
Prepaid assets and other	1,883	(101) (1)
	-----	-----
<b>Total current assets</b>	<b>132,896</b>	<b>(5,185)</b>
	-----	-----
<b>Other assets:</b>		
Goodwill	11,211	(668) (1)
Intangibles, net	25,272	(2) (1)
Equity method investment	7,095	--
Other assets	11,031	--
	-----	-----
<b>Total other assets</b>	<b>54,609</b>	<b>(670)</b>
	-----	-----
<b>Property, plant and equipment, net</b>	<b>80,206</b>	<b>(304) (1)</b>
	-----	-----
<b>Total assets</b>	<b>\$ 267,711</b>	<b>\$ (6,159)</b>
	=====	=====
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 29,655	\$ (1,129) (1)
Accrued liabilities	47,733	(701) (1)
Current maturities of long-term debt	2,857	--
Revolving credit facility	51,000	(3,508) (2)
Current liabilities of discontinued operations	142	--
	-----	-----
<b>Total current liabilities</b>	<b>131,387</b>	<b>(5,338)</b>
	-----	-----
<b>Long-term debt, less current portion</b>	<b>14,239</b>	<b>(12,334) (2)</b>

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Other liabilities	17,770	--
Non-current liabilities of discontinued operations	52	--
	-----	-----
Total liabilities	163,448	(17,672)
	-----	-----
Stockholders' equity		
Convertible preferred stock	86,721	--
Common stock	9,822	--
Additional paid in capital	47,236	--
Accumulated other comprehensive loss	(127)	--
Accumulated deficit	(18,819)	11,513 (1)
Treasury stock	(20,570)	--
	-----	-----
Total stockholders' equity	104,263	11,513
	-----	-----
Total liabilities and stockholders' equity	\$ 267,711	\$ (6,159)
	=====	=====

See Notes to Unaudited Pro Forma Consolidated Financial Information.

Notes to Pro Forma Consolidated Condensed Balance Sheet

- (1) Adjustment to reflect the estimated net proceeds from the Duckback Sale and the elimination of the assets sold and the liabilities assumed by the buyer.

Sale Proceeds	\$ 15,000
Estimated post-closing working capital adjustment	2,000
Less estimated fees and expenses	(1,158)
	-----
Estimated net proceeds	15,842
Assets sold, net of liabilities assumed (based on June 30, 2003 book value)	(4,329)
	-----
Estimated gain on sale	\$ 11,513
	=====

- (2) Reflects the repayment of long-term debt with the entire estimated net proceeds from the Duckback Sale in accordance with the terms of Katy's credit facility.

Pro Forma Consolidated Statements of Operations  
(Unaudited)  
(In thousands, except per share data)

For the Six Months Ended  
June 30, 2003

	Actual	Adjustments	Pro Forma (1)	Actual
	-----	-----	-----	-----
Net sales	\$ 201,199	\$ (9,286) (2)	\$ 191,913	\$ 459,99

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Cost of goods sold	168,876	(5,198) (2)	163,678	381,84
	-----	-----	-----	-----
Gross profit	32,323	(4,088)	28,235	78,14
Selling, general and administrative expenses	31,867	(1,697) (2)	30,170	66,80
Impairments of long-lived assets	1,800	--	1,800	21,20
Severance, restructuring and related costs	1,941	--	1,941	19,15
Loss on SESCO transaction	--	--	--	6,01
	-----	-----	-----	-----
Operating loss	(3,285)	(2,391)	(5,676)	(35,02
Equity in (loss) income of equity method investment	(211)	--	(211)	29
Interest, net	(3,563)	587 (3)	(2,976)	(6,04
Other, net	1,197	--	1,197	(40
	-----	-----	-----	-----
Loss before provision for income taxes	(5,862)	(1,804)	(7,666)	(41,18
Provision for income taxes	(939)	-- (4)	(939)	(8,61
	-----	-----	-----	-----
Loss from continuing operations before distributions on preferred interest in subsidiary	(6,801)	(1,804)	(8,605)	(49,79
Distributions on preferred interest in subsidiary, net of tax	(123)	--	(123)	(1,59
	-----	-----	-----	-----
Loss from continuing operations	(6,924)	(1,804)	(8,728)	(51,39
Income (loss) from operations of discontinued businesses, net of tax	74	--	74	(6,15
(Loss) gain on sale of discontinued businesses, net of tax	(196)	--	(196)	3,30
	-----	-----	-----	-----
Loss before cumulative effect of a change in accounting principle, net of tax	(7,046)	(1,804)	(8,850)	(54,23
Cumulative effect of a change in accounting principle, net of tax	--	--	--	(2,51
	-----	-----	-----	-----
Net loss	(7,046)	(1,804)	(8,850)	(56,74
Gain on early redemption of preferred interest in subsidiary	6,560	--	6,560	--
Payment in kind dividends on convertible preferred stock	(6,025)	--	(6,025)	(11,13
	-----	-----	-----	-----
Net loss attributable to common stockholders	\$ (6,511)	\$ (1,804)	\$ (8,315)	\$ (67,88
	=====	=====	=====	=====

Loss per share of common stock - Basic and diluted:

Loss from continuing operations attributable common stockholders		(\$0.76)	(\$0.98)	(\$
Discontinued operations		(0.02)	(0.02)	(
Cumulative effect of a change in accounting principle		--	--	(
		-----	-----	-----

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Net loss attributable to common stockholders	\$ (0.78)	\$ (1.00)	\$ (
	=====	=====	=====
Weighted average shares outstanding - Basic and diluted	8,352	8,352	8
	=====	=====	=====

See Notes to Unaudited Pro Forma Consolidated Financial Information.

Notes to Pro Forma Consolidated Statements of Operations

- (1) These Pro Forma Consolidated Statements of Operations exclude a non-recurring gain which will be recorded in connection with or due to the Duckback Sale, estimated at \$11.5 million, based on June 30, 2003 book values.
- (2) Reflects the elimination of Duckback's results of operations for the periods presented.
- (3) Assumes the estimated net proceeds of \$15.8 million from the Duckback Sale are used to repay long-term debt (in accordance with Katy's credit facility) with a weighted average interest rate of 7.4% and 7.9% for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively.
- (4) No adjustment has been made for income taxes as Katy assumed that any incremental tax benefit would be offset by a corresponding increase in a deferred tax valuation allowance. Such valuation allowance had been established due to Katy's significant net operating loss carryforward position.

(c) Exhibits.

The following exhibit is filed with this current report on Form 8-K:

- 10 Asset Purchase Agreement, dated as of September, 15, 2003, by and between Katy Industries, Inc., Duckback Products, Inc. and Duckback Acquisition Corp.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KATY INDUSTRIES, INC.

Date: October 1, 2003

By: /s/ Amir Rosenthal

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Amir Rosenthal  
Vice President, Chief Financial Officer,  
General Counsel and Secretary