

KATY INDUSTRIES INC
Form 10-K
March 31, 2014

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2013

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-5558

Katy Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware 75-1277589
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

305 Rock Industrial Park Drive, Bridgeton, Missouri 63044
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (314) 656-4321

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

(Title of class)

Common Stock, \$1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

Edgar Filing: KATY INDUSTRIES INC - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No x

The aggregate market value of the voting common stock held by non-affiliates of the registrant based upon its closing transaction price on the OTC Bulletin Board on June 28, 2013 was \$2,519,414*.

As of March 28, 2014, 7,951,176 shares of common stock, \$1.00 par value, were outstanding, the only class of the registrant's common stock.

* Calculated by excluding all shares held by executive officers and directors of the registrant without conceding that all such persons are "affiliates" of the registrant for purposes of federal securities laws.

DOCUMENTS INCORPORATED BY REFERENCE

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the registrant's definitive proxy statement for the 2014 annual meeting of stockholders (the "2013 Proxy Statement") to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the fiscal year ended December 31, 2013. With the exception of the sections of the 2013 Proxy Statement specifically incorporated herein by reference, the 2013 Proxy Statement is not deemed to be filed as part of this Form 10-K.

2

TABLE OF CONTENTS

| | PAGE |
|---|------|
| <u>PART I</u> | 4 |
| Item 1. <u>BUSINESS</u> | 4 |
| Item 1A. <u>RISK FACTORS</u> | 7 |
| Item 1B. <u>UNRESOLVED STAFF COMMENTS</u> | 11 |
| Item 2. <u>PROPERTIES</u> | 12 |
| Item 3. <u>LEGAL PROCEEDINGS</u> | 12 |
| Item 4. <u>MINE SAFETY DISCLOSURES</u> | 12 |
| <u>PART II</u> | 13 |
| Item 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 13 |
| Item 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 14 |
| Item 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u> | 21 |
| Item 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u> | 45 |
| Item 9A. <u>CONTROLS AND PROCEDURES</u> | 46 |
| Item 9B. <u>OTHER INFORMATION</u> | 46 |
| <u>PART III</u> | 46 |
| Item 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u> | 46 |
| Item 11. <u>EXECUTIVE COMPENSATION</u> | 47 |
| Item 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u> | 47 |
| Item 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u> | 48 |
| Item 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u> | 48 |
| <u>PART IV</u> | 48 |
| Item 15. <u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u> | 48 |
| <u>SIGNATURES</u> | 49 |
| <u>EXHIBITS</u> | 51 |

Table of Contents

PART I

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Except for the historical information and current statements contained in this Annual Report on Form 10-K, certain matters discussed herein or incorporated by reference, including, without limitation, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in press releases, written statements or other documents filed with or furnished to the Securities and Exchange Commission (“SEC”), or in our communications or discussions through webcasts, conference calls and other presentations may be deemed to be forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected in or contemplated by forward-looking statements due to a number of important factors, including the factors discussed under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 1. BUSINESS

Katy Industries, Inc. (“Katy” or the “Company”) was organized as a Delaware corporation in 1967. We are a manufacturer, importer and distributor of commercial cleaning and consumer storage products. Our business units operate within a framework of policies and goals aligned under a corporate group. Katy’s corporate group is responsible for overall planning, sales management, financial management, human resource management, acquisitions, dispositions and other related administrative matters.

Operations

Our commercial cleaning products are sold primarily to industrial, janitorial/sanitary and foodservice distributors that supply end users in the education, foodservice, government, healthcare, lodging, office supply, recreation, and transportation segments. Our consumer storage products are primarily sold through hardware, home improvement, mass merchant and sporting goods outlets. Net sales and operating loss from continuing operations for the Company during 2013 were \$78.3 million and \$1.5 million, respectively. Total assets for the Company were \$27.0 million at December 31, 2013. Continental Commercial Products, LLC (“CCP”) is our wholly-owned subsidiary and includes as divisions all of our business units. CCP is headquartered in Bridgeton, Missouri near St. Louis and has additional operations in California and Canada. Our business units are:

The Continental business unit is a plastics manufacturer and an importer and distributor of products for the commercial janitorial/sanitary maintenance, industrial and foodservice markets. Continental products include commercial waste receptacles, floorcare and mopping equipment, restroom accessories, material handling and other products designed for commercial cleaning and foodservice. Continental products are sold under the following brand names: Continental®, Kleen Aire®, Huskee®, SuperKan®, King Kan®, Unibody®, Tilt-N-Wheel®, Wall Hugger™, Collossus®, Corner’ Round™, Roun ‘Top™, Swingline™, Derma-Tek ® and Kleen Tech™.

The Contico business unit is a plastics manufacturer and distributor of home and tool storage products, primarily sold through major home improvement and mass market retail outlets. Contico products include plastic home storage units such as storage containers, tool boxes, shelving, crates and totes and hard plastic gun cases and are sold under the brand names Contico® and Tuffbin®. Contico® is a registered trademark used under license from Contico Manufacturing Limited.

The Wilco business unit is a manufacturer, importer and distributor of professional cleaning products that include mops, brooms and sweeps, poles and handles, microfiber, brushes and plastic cleaning accessories. Wilco products are primarily sold through commercial janitorial/sanitary maintenance, industrial and food service markets, with some

products sold through consumer retail outlets. Products are sold under the following brand names: Wilen®, Wax-o-matic®, Rototech®, ErgoWorx® and Derma-Tek®.

The Glit business unit is a manufacturer and distributor of non-woven abrasive products for commercial and industrial use and also supplies materials to various OEMs. Glit non-woven products include floor maintenance pads, hand pads, scouring pads, specialty abrasives for cleaning and finishing, growth medium and roof ventilation products. These products are sold primarily in the commercial sanitary maintenance, foodservice, industrial and construction markets under the following brand names: Glit®, Kleenfast®, Glit/Microtron®, Fiber Naturals®, Blue Ice®, Brillo®, Cyclone®, Cyclone-D®, Sponge Pro®, Wipe Clean Pro®, Joey®, Jackeroo®, Buckaroo®, Cocopad®, Safire® and WalnutPad®. Brillo® is a registered trademark used under license from Armaly Brands, Inc. and BAB-O® is a registered trademark used under license from Fitzpatrick Bros., Inc. On January 24, 2013, we announced the closure of our Glit business unit in Wrens, Georgia.

4

Table of Contents

In March 2013, we closed and sold-off certain assets related to the Glit business unit, in September 2012 we closed our Container business unit in Norwalk, California and in October 2012 we sold certain assets related to the Gemtex business unit. We accounted for these divisions as discontinued operations and accordingly, we have reclassified the financial results for all periods presented to reflect them as such. Unless otherwise noted, discussions in this Form 10-K pertain to our continuing operations.

We have restructured many of our operations in order to maintain a low cost structure, which is essential for us to be competitive in the markets we serve. These restructuring efforts include consolidation of facilities, headcount reductions and evaluation of sourcing strategies to determine the lowest cost method for obtaining finished product. Costs associated with these efforts include expenses for non-cancelable leases at facilities that have been abandoned, severance and other employee termination and exit costs.

See Licenses, Patents and Trademarks below for further discussion regarding the trademarks used by Katy companies.

Markets and Competition

We market a variety of commercial cleaning products and supplies to the sanitary maintenance supply, industrial and foodservice channels. Sales and marketing of these products are handled through a combination of direct sales personnel, manufacturers' sales representatives and wholesale distributors. The commercial distribution channels for our commercial cleaning products are highly fragmented, resulting in a large number of small customers, mainly distributors of sanitary maintenance products. We do not have one single customer that comprises greater than ten percent of consolidated net sales.

The markets for these products are highly competitive. Competition is primarily based on price, the ability to provide superior customer service and on-time product delivery. Other competitive factors include brand recognition, product design, quality and performance of the product. We compete for market share with a number of competitors depending upon the specific market place. In large part, our competition is unique in each product line. We believe that we have established long standing relationships with our major customers based on quality products and service, and our ability to offer a complete line of products with flexible solutions such as private labeling. While each product line is marketed under a different brand name most are sold as complementary products. We continue to strive to be a low cost producer in all our markets; however, our ability to remain a low cost producer in the industry is highly dependent on the price of our raw materials, primarily thermoplastic resin (see discussion below). Being a low cost producer is also dependent upon our ability to reduce and subsequently control our cost structure, which has benefited from our recent restructuring efforts.

We market branded plastic home storage units to mass merchant retailers in the U.S. and Canada. Sales and marketing of these products are handled by direct sales personnel and external representative groups. The consumer distribution channels for these products, especially the in-home products, are highly concentrated, with several large mass merchant retailers representing a very significant portion of the customer base. We compete with a limited number of large companies that offer a broad array of products and many small companies with niche offerings. With few consumer storage products enjoying patent protection, the primary basis for competition is price. Therefore, efficient and flexible manufacturing and distribution capability is critical to success. Ultimately, our ability to remain competitive in these consumer markets is dependent upon our position as a low cost producer. Our ability to become and remain a low cost producer in the industry is highly dependent on the price of our raw materials, primarily thermoplastic resin (see discussion below).

Raw Materials

Our operations did not experience significant difficulties in obtaining raw materials, fuels, parts or supplies for their activities during the year ended December 31, 2013, but no prediction can be made as to possible future supply

problems or production disruptions resulting from possible shortages. We are subject to uncertainties involving labor relations issues at entities involved in our supply chain, both at suppliers and in the transportation and shipping area. Our Continental and Contico business units use polyethylene, polypropylene and other thermoplastic resins as raw materials in a substantial portion of their plastic products. We have experienced significant price volatility in resins over the last several years and we expect such volatility to continue. Worldwide economic recovery could result in demand exceeding supply which would result in shortages and drive prices even higher. Political unrest in the Middle East, aging refineries in the U.S. and hurricanes in the Gulf of Mexico could result in disruptions in supply.

5

Table of Contents

Prices and availability of cotton and synthetic raw materials used in our Wilen business unit remained stable and we believe will remain stable in early 2014. However, future concerns surround the fact that China is the largest importer of cotton, and future cotton price levels are driven significantly by Chinese government policy. Current Chinese policy requires large cotton reserves be established and withheld from the general market. Going into 2014, it is estimated that China will hold 55% of the world's cotton. Additionally, growers in other parts of the world are switching to more lucrative crops such as corn and soybean; forecasts expect country producers to plant 25% less cotton in 2014/2015. With all these factors in place, we expect Chinese import demand and policies to dominate world cotton pricing for the foreseeable future.

The price of broom corn, used in our corn brooms, was an issue in 2013 and appears to remain an issue in 2014. Mexico, which is one of the world's leading producers of broom corn, experienced severe drought conditions in 2013 and the Mexican government was forced to ration water to local farmers. Conditions going into 2014 have the farmers believing they will be issued water rationing orders again this year. As a result there is a potential for supply shortages and higher prices.

We import raw materials, sub-components and finished goods from different parts of the world such as China and Central America. Many of these products have seen increases in raw material costs as well as inflationary pressures due to wage increases, particularly in China where double digit wage increases have become an annual occurrence.

We have not employed an active hedging program related to our commodity price risk, but have employed other strategies for managing this risk, including contracting for a certain percentage of resin needs through supply agreements and opportunistic spot purchases, vendor negotiations and other measures. In addition, some price increases were implemented when possible; however, in a climate of rising raw material costs (especially in the last three years), we experience difficulty in raising prices to shift these higher costs to our consumer customers for our plastic products. We cannot predict the direction our raw material prices will take during 2014 and beyond.

Employees

As of December 31, 2013, we employed 263 people, 159 of which were members of a labor union. Our labor relations are generally satisfactory and there have been no strikes in recent years. Our union contract will expire in December 2014. The Company has historically begun negotiations approximately one month prior to the expiration of the contract and expects to do the same in 2014.

Regulatory and Environmental Matters

Our operations are subject to various laws and regulations relating to workplace safety and the environment. Changes in these laws and regulations could have a material impact on our capital expenditures and earnings. See Note 13 to the Consolidated Financial Statements in Part II, Item 8.

Licenses, Patents and Trademarks

The success of our products historically has not depended largely on patent, trademark and license protection, but rather on the quality of our products, proprietary technology, contract performance, customer service and the technical competence and innovative ability of our personnel to develop and introduce products. However, we do rely to a certain extent on patent protection, trademarks and licensing arrangements in the marketing of certain products. Examples of key licensed and protected trademarks include Contico®; Continental®; and Wilen®.

Available Information

Edgar Filing: KATY INDUSTRIES INC - Form 10-K

We file annual, quarterly and current reports, proxy statements, and other documents with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including Katy, that file electronically with the SEC. The public can obtain documents that we file with the SEC at <http://www.sec.gov>.

We maintain a website at <http://www.katyindustries.com>. We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and, if applicable, all amendments to these reports as well as Section 16 reports on Forms 3, 4 and 5, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

6

Table of Contents

Item 1A. RISK FACTORS

In addition to other information and risk disclosures contained in this report, we encourage you to consider the risk factors discussed below in evaluating our business. We work to manage and mitigate risks proactively. Nevertheless, the following risk factors, some of which may be beyond our control, could materially impact our results of operations or cause future results to materially differ from current expectations. Please also see “Forward-Looking Statements” in Part II, Item 7.

We are dependent upon a continuous supply of raw materials from third party suppliers and would be harmed by a significant, prolonged disruption in supply.

Our reliance on suppliers and commodity markets to secure thermoplastic resins and other raw materials used in our products exposes us to volatility in the availability of raw materials. In some instances, we depend upon a single source of supply or participate in commodity markets that may be subject to allocations by suppliers. There is no assurance that we could obtain the required raw materials from other sources on as favorable terms. As a result, any significant delay in or disruption of the supply of our raw materials or commodities could have an adverse effect on our ability to meet our commitments to our customers, substantially increase our cost of materials, require product reformulation or require qualification of new suppliers, any of which could have a material adverse effect on our business, results of operations or financial condition. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices and, although we do not anticipate any loss of our supply sources, the unavailability of some raw materials, should it occur, may have an adverse effect on our results of operations and financial condition.

Price increases in raw materials could adversely affect our operating results and financial condition.

The prices for certain raw materials used in our operations have demonstrated volatility over the past few years. The volatility of resin and cotton prices is expected to continue and may be affected by numerous factors beyond our control, including domestic and international economic conditions, labor costs, the price and production levels of oil, competition, import duties and tariffs and currency exchange rates. We attempt to reduce our exposure to increases in those costs through a variety of programs, including opportunistic buying of product in the spot market, entering into contracts with suppliers, and seeking substitute materials. However, there can be no assurance that we will be able to offset increased raw material costs through price increases and there may be a delay from quarter to quarter between the timing of raw material cost increases and price increases on our products. If we are unable to offset increased raw material costs, our production costs may increase and our margins may decrease, which may have a material adverse effect on our results of operations.

Fluctuations in the price, quality and availability of certain portions of our finished goods due to greater reliance on third party suppliers could negatively impact our results of operations.

Because we are dependent on third party suppliers for a certain portion of our finished goods, we must obtain sufficient quantities of quality finished goods from our suppliers at acceptable prices and in a timely manner. We have no long-term supply contracts with our key suppliers and our ability to maintain close, mutually beneficial relationships with our third party suppliers is important to the ongoing profitability of our business. Unfavorable fluctuations in the price, quality and availability of these finished goods products could negatively impact our ability to meet the demands of our customers and could result in a decrease in our sales and earnings.

As a result of the reduction in overall economic activity, the demand for certain of our products has declined.

Since certain of our products are used for cleaning buildings and office space as well as general cleaning, as vacancies increase the demand for these products is reduced. Additionally, our distributors, wholesalers and retailers have

reduced their investment in inventories. Both of these occurrences have caused shrinkage of available business. A continued reduction in overall economic activity could have a material adverse effect on our results of operations.

Our stock price has been, and likely will continue to be, volatile.

The market price of our common stock has experienced fluctuations and is likely to fluctuate significantly in the future. Our stock price may fluctuate for a number of reasons, including:

- announcements concerning us or our competitors;
- quarterly variations in operating results;
- introduction or abandonment of new technologies or products;
- divestiture or acquisition of business groups or units;
- limited trading in our stock;

7

Table of Contents

- changes in product pricing policies;
- changes in governmental regulations affecting us; and
- changes in earnings estimates by analysts or changes in accounting policies.

These potential factors, as well as general economic, political and market conditions, such as armed hostilities, acts of terrorism, civil disturbances, recessions, international currency fluctuations, or tariffs and other trade barriers, may materially and adversely affect the market price of our common stock. In addition, stock markets have experienced significant price and volume volatility in the past. This volatility has had a substantial effect on the market prices of securities of many public companies for reasons frequently unrelated or disproportionate to the operating performance of the specific companies. If these broad market fluctuations continue, they may adversely affect the market price of our common stock.

Our common stock is quoted on the OTC Bulletin Board, which may have an unfavorable impact on our stock price and liquidity.

Our common stock is quoted on the OTC Bulletin Board under the ticker symbol "KATY." The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than the New York Stock Exchange. Holders of our common stock may be unable to resell their securities at or near their original offering price or at any price. The quotation of our shares on the OTC Bulletin Board may result in a less liquid market available for existing and potential stockholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

Our inability to implement our strategy of continuously improving our productivity and streamlining our operations could have an adverse effect on our financial condition and results of operations.

During the past several years, we have restructured many of our operations in order to maintain a low cost structure, which is essential for us to be competitive in the markets we serve. We must continuously improve our manufacturing efficiencies in order to reduce our overhead structure, as well as develop additional efficiencies within the sourcing/purchasing and administration areas of our operations. The plans and programs we implement for the purpose of improving efficiencies may not have the positive profit-enhancing impact anticipated. In the event we are unable to continue to improve our productivity and streamline our operations, our financial condition and results of operations may be harmed.

An increase in interest rates may negatively impact our operating results.

As of December 31, 2013, all of our outstanding debt was subject to variable interest rates. An increase in interest rates may have a material adverse effect on our financial condition and results of operations.

The cost of servicing our debt on which we are required to make interest and principal payments may adversely affect our liquidity and financial condition, limit our ability to grow and compete, and prevent us from fulfilling our obligations under our indebtedness.

As of December 31, 2013, we had \$7.7 million of debt outstanding. Subject to limits contained in the agreements governing our outstanding debt, we may incur additional debt in the future. Our indebtedness places significant demands on our cash resources, which may:

- make it more difficult for us to satisfy our outstanding debt obligations;

require us to dedicate a substantial portion or even all of our cash flow from operations to payments on our debt, thereby reducing the amount of our cash flow available for working capital, capital expenditures, acquisitions, and other general corporate purposes;

increase the amount of interest expense that we will have to pay because our borrowings are at variable rates of interest which, if increased, will result in higher interest payments;

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete;

place us at a competitive disadvantage compared to our competitors, some of which have lower debt service obligations and greater financial resources than we do;

limit our ability to borrow additional funds; and

increase our vulnerability to existing and future adverse economic and industry conditions.

8

Table of Contents

Our ability to make scheduled payments of principal or interest on our debt, or to refinance such debt, will depend upon our future operating performance, which is subject to general economic and competitive conditions and to financial, business and other factors, many of which we cannot control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt or meet our other cash needs. Should we fail to generate sufficient cash flows from operations to service our debt, we may be required to refinance all or a portion of our existing debt, sell assets at inopportune times or obtain additional financing to meet our debt obligations and other cash needs. We cannot be assured that any such refinancing, sale of assets or additional financing would be possible on terms and conditions, including but not limited to the interest rate, which we would find acceptable.

We are obligated to comply with financial and other covenants in our debt agreements that could restrict our operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment under our debt.

The agreements relating to our outstanding debt, including our Loan and Security Agreement (the “PB Loan Agreement”) with the PrivateBank and Trust Company (“PrivateBank”), contain a number of restrictive covenants that limit our ability to, among other things:

- incur additional debt;
- make certain distributions, investments and other restricted payments;
- limit the ability of restricted subsidiaries to make payments to us;
- enter into transactions with affiliates;
- create certain liens;
 - sell assets and if sold, use the proceeds at management’s discretion; and
- consolidate, merge or sell all or substantially all of our assets.

Our secured debt also contains other customary covenants, including, among others, provisions relating to the maintenance of the property securing the debt and restricting our ability to pledge assets or create other liens. The failure to comply with the covenants contained in our debt agreements could subject us to default remedies, including the acceleration of all or a substantial portion of our existing indebtedness. If we were to breach any of our debt covenants and did not cure the breach within any applicable cure period, our lender could require us to repay the debt immediately, and/or, could immediately begin proceedings to take possession of the property securing the loan. Our debt arrangements contain cross-default provisions, which means that the lender under those debt arrangements can place us in default and require immediate repayment of its debt if we breach and fail to cure a covenant under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

If we are unable to comply with the terms of our debt agreements, we could seek to obtain an amendment to such debt agreements and pursue increased liquidity through additional debt financing and/or the sale of assets. It is possible, however, that we may not be able to obtain amendments from the lender or secure additional debt financing or liquidity through the sale of assets on favorable terms or at all.

Work stoppages or other labor issues at our facilities or those of our suppliers could adversely affect our operations.

At December 31, 2013, we employed 263 persons in our various businesses, of which approximately 61% were subject to a collective bargaining arrangement. As a result, we are subject to the risk of work stoppages and other labor-relations matters. Our union contract will expire in December 2014.

If our union employees were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations or higher ongoing labor costs. We believe our relationships with our union employees are good, but these relationships could deteriorate. Any failure by us to reach a new agreement upon expiration of such union contracts may have a material adverse effect on our business, results of operations, or financial condition. We are also subject to labor relations issues at entities involved in our supply chain, including both suppliers and those entities involved in transportation and shipping. If any of our suppliers experience a material work stoppage, that supplier may interrupt supply of our necessary production components. This could cause a delay or reduction in our production facilities relating to these products, which could have a material adverse effect on our business, results of operations, or financial condition.

9

Table of Contents

We may not be able to protect our intellectual property rights adequately or assure that third parties will not claim proprietary rights infringement by us in the future.

Part of our success depends upon our ability to use and protect proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of our products and processes. We own and use tradenames and trademarks worldwide. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect our intellectual property rights. The steps we take in this regard may not be adequate to prevent or deter challenges, reverse engineering or infringement or other violation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights to the same extent as the laws of the United States.

We are not aware of any assertions that our trademarks or tradenames infringe upon the proprietary rights of third parties, but we cannot assure that third parties will not claim infringement by us in the future. Any such claim, whether or not it has merit, could be time-consuming, result in costly litigation, cause delays in introducing new products in the future or require us to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on our business, results of operations and financial condition.

Our future performance is influenced by our ability to remain competitive.

As discussed in “Business – Competition,” we operate in markets that are highly competitive and face substantial competition from numerous competitors in each of our product lines. Our competitive position in the markets in which we participate is subject to external factors. For example, supply and demand for certain of our products is driven by end-use markets and worldwide capacities which, in turn, impact demand for and pricing of our products. Many of our direct competitors are part of large multi-national companies and may have more resources than we do. Any increase in competition may result in lost market share or reduced prices, which could result in reduced gross profit margins. This may impair our ability to grow or even to maintain current levels of sales and earnings. If we are not as cost efficient as our competitors, or if our competitors are otherwise able to offer lower prices, we may lose customers or be forced to reduce prices, which could negatively impact our financial results.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations, financial condition and stock price.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management’s assessment of the effectiveness of such control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our stock price.

Changes in laws and government regulations affecting environmental compliance and income taxes could adversely affect our business and results of operations.

We are subject to many environmental and safety regulations with respect to our operating facilities. Most of our facilities are subject to extensive laws, regulations, rules and ordinances relating to the protection of the environment, including those governing the discharge of pollutants into the air and water and the generation, management and disposal of hazardous substances and wastes or other materials. We may incur substantial costs, including fines, damages and criminal penalties or civil sanctions, or experience interruptions in our operations for actual or alleged violations or compliance requirements arising under environmental laws. Our operations could result in violations under environmental laws, including spills or other releases of hazardous substances to the environment. Given the nature of our business, violations of environmental laws may result in restrictions imposed on our operating activities or substantial fines, penalties, damages or other costs, including costs as a result of private litigation. In addition, we may incur significant expenditures to comply with existing or future environmental laws. Costs relating to environmental matters will be subject to evolving regulatory requirements and will depend on the timing of promulgation and enforcement of specific standards that impose requirements on our operations. Costs beyond those currently anticipated may be required under existing and future environmental laws.

10

Table of Contents

At any point in time, a number of our tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with tax authorities may affect tax positions taken. Additionally, our effective tax rate in a given financial statement period may be materially impacted by changes in the geographic mix or level of earnings, which could negatively impact our financial position and results of operations.

We are subject to litigation that could adversely affect our operating results.

From time to time we may be a party to lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings could result in substantial costs and may require that we devote substantial resources to our defense. Further, changes in government regulations both in the United States and Canada could have adverse effects on our business and subject us to additional regulatory actions. We are currently a party to various lawsuits. See Item 3, "Legal Proceedings."

We are primarily self-insured with respect to health insurance and workers' compensation. If our reserves for health insurance and workers' compensation claims and other expenses are inadequate, we may incur additional charges if the actual costs of these claims exceed the amounts estimated.

Because of high deductibles on our health insurance and workers' compensation policies, we are effectively self-insured with respect to these coverages. Employee health claims are self-insured except to the extent of stop-loss coverage on large claims. In our financial statements, we maintain a reserve for health insurance and workers' compensation claims using actuarial estimates from third-party consultants and historical data for payment patterns, cost trends and other relevant factors. We evaluate the accrual rates for our reserves regularly throughout the year and we have in the past made adjustments as needed. Due to the uncertainties inherent in the actuarial process, the amount reserved may differ from actual claim amounts and we may be required to further adjust our reserves in the future to reflect the actual cost of claims and related expenses. If the actual cost of such claims and related expenses exceeds the amounts estimated, we may be required to record additional charges for these claims and/or additional reserves may be required, which would negatively impact our financial position and results of operations.

We may not be able to successfully integrate acquisitions into our business and indemnification provisions in our acquisition agreements may not fully protect us.

We completed an acquisition in 2014. As a part of our business strategy, we may enter into additional business combinations and acquisitions, although acquisitions require lender approval under our credit agreement. Acquisitions are typically accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business and distraction of management, expenses related to the acquisition and potential unknown liabilities associated with the acquired businesses. Our prior acquisition and any future acquisitions may not ultimately help us achieve our strategic goals and may pose other risks to us, such as require restructurings with facility closures and consolidations. As a result of our previous acquisition, we have added different decentralized operating and accounting systems, resulting in a complex reporting environment. We expect that we will need to continue to modify our accounting policies, internal controls, procedures and compliance programs to provide consistency across all of our operations, in order to increase efficiency and operating effectiveness and improve corporate visibility into our decentralized operations. We are entitled to certain indemnification rights under the agreement by which we acquired a company. If circumstances arise under which we believe we are entitled to indemnification, the indemnifying party may not agree with our assertion as to our rights to indemnification under the circumstances and we may increase our accruals and corresponding costs.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

11

Table of Contents

Item 2. PROPERTIES

As of December 31, 2013, our total building floor area leased was 684,000 square feet. The following table shows a summary by location of our principal facilities including the nature of the facility and the related business unit.

| <u>Location</u> | <u>Facility</u> | <u>Business Unit</u> |
|-----------------|-------------------------------------|---|
| UNITED STATES | | |
| California | | |
| Chino | Office, Distribution | Continental, Wilen |
| Missouri | | |
| Bridgeton | Office, Manufacturing, Distribution | Continental, Contico, Wilen, Corporate |
| Hazelwood | Manufacturing | Contico |
| CANADA | | |
| Ontario | | |
| Toronto | Office, Distribution | Continental, Wilen |

We believe that our current facilities have been adequately maintained, generally are in good condition, and are suitable and adequate to meet our needs in our existing markets for the foreseeable future.

Item 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is included in Note 13 to the Consolidated Financial Statements in Part II, Item 8 and is incorporated by reference herein.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

12

Table of ContentsPART IIItem 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the OTC Bulletin Board system (“OTCBB”) under the symbol “KATY.” The following table sets forth high and low sales prices for the common stock as reported on the OTCBB. Reported prices from the OTCBB reflect inter-dealer prices, without retail mark-up, mark-down or commission and thus may not necessarily represent actual transactions.

| <u>Period</u> | High | Low |
|----------------|--------|--------|
| 2012 | | |
| First Quarter | \$0.60 | \$0.09 |
| Second Quarter | 0.75 | 0.31 |
| Third Quarter | 0.75 | 0.22 |
| Fourth Quarter | 0.51 | 0.17 |
| 2013 | | |
| First Quarter | \$0.95 | \$0.17 |
| Second Quarter | 0.95 | 0.45 |
| Third Quarter | 0.98 | 0.50 |
| Fourth Quarter | 1.00 | 0.41 |

As of February 28, 2014, there were 396 holders of record of our common stock, in addition to approximately 676 holders in street name, and there were 7,951,176 shares of common stock outstanding.

Dividend Policy

Dividends are paid at the discretion of our Board of Directors. The Company has not declared or paid any cash dividends on its common stock in recent years. In addition, the PB Loan Agreement prohibits the Company from paying dividends on its securities, other than dividends paid solely in securities. The Company currently intends to retain its future earnings, if any, to fund the development and growth of its business and, therefore, does not anticipate paying any dividends, either in cash or securities, in the foreseeable future. Any future decision concerning the payment of dividends on the Company’s common stock will be subject to its obligations under the PB Loan Agreement and will depend upon the results of operations, financial condition and capital expenditure plans of the Company, as well as such other factors as the Board of Directors, in its sole discretion, may consider relevant. For a discussion of our PB Loan Agreement, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under the Company’s equity compensation plans as of December 31, 2013 is set forth in Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report and the information incorporated by reference in this report contain various "forward-looking statements" as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934, as amended. The forward-looking statements are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. We have based these forward-looking statements on current expectations and projections about future events and trends affecting the financial condition of our business. Additional information concerning these and other risks and uncertainties is included in Part I, Item 1A under the caption "Risk Factors". Words and phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "may," "should," "will," "continue," "is subject to," and the like are intended to identify forward-looking statements. The results referred to in forward-looking statements may differ materially from actual results because they involve estimates, assumptions and uncertainties. Forward-looking statements included herein are as of the date hereof and we undertake no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. All forward-looking statements should be viewed with caution. These forward-looking statements are subject to risks and uncertainties that may lead to results that differ materially from those expressed in any forward-looking statement made by us or on our behalf, including, among other things:

- Increases in the cost of, or in some cases continuation of, the current price levels of thermoplastic resins, paper board packaging, corn, cotton and other raw materials.
- Our inability to reduce product costs, including manufacturing, sourcing, freight, and other product costs.
- Our inability to protect our intellectual property rights adequately.
- Our inability to expand our customer base and increase corresponding revenues.
- Our inability to achieve product price increases, especially as they relate to potentially higher raw material costs.
- Unfavorable economic or business conditions, as well as our exposure to the credit risks of our customers and distributors, which may reduce our sales or make it difficult to collect accounts receivable.
- Competition from foreign and domestic competitors.
- The potential impact of rising interest rates on our debt outstanding under the PB Loan Agreement.
- Our inability to meet covenants associated with our loan agreement.
- Our inability to access funds under our current loan agreement or refinance our loan agreement.
- Our failure to identify, and promptly and effectively remediate, any material weaknesses or significant deficiencies in our internal control over financial reporting.
- The potential impact of rising costs for insurance for properties and various forms of liabilities.
- Labor issues, including union activities that require an increase in production costs or lead to a strike, thus impairing production and decreasing sales, and labor relations issues at entities involved in our supply chain, including both suppliers and those involved in transportation and shipping.

Changes in significant laws and government regulations affecting health-care costs, environmental compliance and income taxes.

14

Table of Contents

OVERVIEW

We are a manufacturer, importer and distributor of commercial cleaning and storage products. Our commercial cleaning products are sold primarily to industrial, janitorial/sanitary maintenance and foodservice distributors that supply end users such as restaurants, hotels, healthcare facilities and schools. Our storage products are primarily sold through major home improvement and mass market retail outlets.

For purposes of this discussion and analysis section, reference is made to the table below and our Consolidated Financial Statements included in Part II, Item 8. In September 2012, we closed our Container business unit in Norwalk, California and in October 2012 we sold certain assets related to the Gemtex business unit. In addition, in January 2013, we announced the closure of our Glit business unit in Wrens, Georgia. As a result, the operations of these divisions are reflected as discontinued operations for all periods presented.

Over the past few years, our management has been focused on a number of restructuring and cost reduction initiatives, including the consolidation of facilities, selling, general and administrative cost rationalization and organizational changes. We have and expect to continue to benefit from various profit enhancing strategies such as process improvements, value engineering products and improved sourcing/purchasing.

End-user demand for our products has historically been stable and recurring. Due to the current economic environment, the need for our products has been reduced along with the reduction in overall economic activity. Since our products are used for cleaning buildings and office space as well as general cleaning, as vacancies increase; the demand for our products will be reduced. Additionally, consistent with good business practice in a downturn economy, our distributors/wholesale retailers have reduced their investment in inventories. Both of these occurrences have caused shrinkage of available business.

Our core cleaning product sales tend to move in tandem with the rate of growth in U.S. gross domestic product (“GDP”). As more industries emphasize both sanitary standards and environmentally friendly solutions, we expect our revenues to benefit. Demand for consumer plastic storage products is closely linked to “value” items and the ability to pass on raw material increases has been a significant challenge. End-users are sensitive to the price/value relationship more than brand-name and are seeking alternative solutions when the price/value relationship does not meet their expectations.

Key elements in achieving profitability include 1) lowering our cost structure, from a production, distribution and administrative standpoint, 2) providing outstanding customer service and 3) containing raw material costs (especially plastic resins) or raising prices to shift these costs to our customers for our plastic products. In addition to continually striving to reduce our cost structure; we are seeking to offset pricing challenges by developing new products.

Table of Contents

| | Years Ended December 31, | | | |
|---|---|------------|------------|------------|
| | 2013 | | 2012 | |
| | (Amounts in Thousands, except per share data and percentages) | | | |
| | \$ | % to Sales | \$ | % to Sales |
| Net sales | \$78,256 | 100.0 | \$80,315 | 100.0 |
| Cost of goods sold | 66,359 | 84.8 | 68,060 | 84.7 |
| Gross profit | 11,897 | 15.2 | 12,255 | 15.3 |
| Selling, general and administrative expenses | 12,287 | 15.7 | 15,224 | 19.0 |
| Severance, restructuring and related charges | 338 | 0.4 | - | - |
| Impairment of long-lived assets | - | - | 1,934 | 2.4 |
| Loss on sale or disposal of assets | 230 | 0.3 | - | - |
| Operating loss | (958) | (1.2) | (4,903) | (6.1) |
| Interest expense | (767) | | (730) | |
| Other, net | 171 | | 279 | |
| Loss from continuing operations before income tax expense | (1,554) | | (5,354) | |
| Income tax expense from continuing operations | (21) | | (19) | |
| Loss from continuing operations | (1,575) | | (5,373) | |
| Income (loss) from operations of discontinued business (net of tax) | 73 | | (9,453) | |
| Loss on sale of discontinued business (net of tax) | - | | (280) | |
| Net loss | \$(1,502) | | \$(15,106) | |
| Net loss per share of common stock - Basic and Diluted | | | | |
| Loss from continuing operations | \$(0.20) | | \$(0.68) | |
| Discontinued operations | 0.01 | | (1.22) | |
| Net loss | \$(0.19) | | \$(1.90) | |

RESULTS OF OPERATIONS - 2013 COMPARED TO 2012

Net sales of \$78.3 million for the year ended December 31, 2013 reflected a decrease of \$2.1 million, or 2.6%, from the year ended December 31, 2012. The decrease in net sales was primarily a result of a volume shortfall in our Wilen business, which was partially offset by a volume increase in our Plastics business. Gross margin was 15.2% for the year ended December 31, 2013, a decrease of 0.1 percentage point from the prior year. Gross margin was impacted by an unfavorable variance in our LIFO adjustment of \$0.1 million and \$0.6 million for the years December 31, 2013 and December 31, 2012, respectively. Excluding the LIFO adjustment, gross margin for the year ended December 31, 2013 decreased 0.7 percentage points from the prior year. The decrease was primarily a result of higher material costs in our operations related to resin. As a result, our gross profit decreased \$0.4 million from \$12.3 million to \$11.9 million.

Selling, general & administrative (“SG&A”) expenses were \$12.3 million for the year ended December 31, 2013, a \$2.9 million decrease from the prior year. The decrease was primarily due to one-time settlements and headcount reductions.

Our operating loss decreased \$3.9 million from \$4.9 million for the year ended December 31, 2012 to \$1.0 million for the year ended December 31, 2013. Operating results for the year ended December 31, 2012 included impairments of

long-lived assets related to our goodwill and intangibles of \$1.9 million. Excluding the asset impairments our operating loss decreased \$2.0 million, primarily as a result of the decrease in SG&A discussed above.

Interest expense increased by \$37,000 in 2013 compared to 2012, primarily as a result of higher interest rates.

16

Table of Contents

Loss from continuing operations of \$1.6 million for the year ended December 31, 2013 was \$3.8 million less than the year ended December 31, 2012. The year ended December 31, 2012 included a \$1.9 million long-lived asset impairment related to our goodwill and intangibles. Excluding the asset impairments the loss from continuing operations improved by \$1.9 million from the year ended December 31, 2012. The improvement was primarily a result of lower SG&A costs as discussed above.

With the announced closure of the Glit division on January 24, 2013, the Container division on July 24, 2012, and the sale of the Gemtex division on September 20, 2012, all activity associated with these divisions has been classified as discontinued operations. Income from operations for these divisions was \$0.1 million for the year ended December 31, 2013 and a loss of \$9.7 million for the year ended December 31, 2012.

Overall, we reported a net loss of \$1.5 million, or \$0.19 per share, for the year ended December 31, 2013, as compared to a net loss of \$15.1 million, or \$1.90 per share, in the same period of 2012.

LIQUIDITY AND CAPITAL RESOURCES

We require funding for working capital needs and capital expenditures. We believe that our cash flow from operations and the use of available borrowings under the PB Loan Agreement (as defined below) and subsequently the BMO loan agreement (as defined below) provide sufficient liquidity for our operations going forward. As of December 31, 2013, we had cash of \$0.7 million and book overdrafts of \$0.3 million as compared to cash of \$0.6 million and book overdrafts of \$0.5 million at December 31, 2012. As of December 31, 2013, we had outstanding borrowings of \$7.7 million under the PB Loan Agreement. Our unused borrowing availability at December 31, 2013 was \$1.6 million after the \$1.3 million minimum availability requirement under the PB Loan Agreement. As of December 31, 2012, we had outstanding borrowings of \$10.9 million with unused borrowing availability of \$0.3 million after the \$1.3 million minimum availability requirement under the PB Loan Agreement.

PB Loan Agreement

On October 4, 2011, CCP, Glit/Gemtex, Ltd. and 3254018 Nova Scotia Limited (collectively, the “Borrowers”), wholly-owned subsidiaries of the Company, entered into a Loan and Security Agreement (as amended, the “PB Loan Agreement”) with the PrivateBank and Trust Company (“PrivateBank”). On May 31, 2012, the PB Loan Agreement was amended (the “First Amendment”) to provide additional flexibility under the financial covenants by replacing the minimum fixed charge ratio covenant for the period of April 27, 2012 to October 26, 2012, with a minimum earnings before interest, taxes, depreciation and amortization covenant and reduced the borrowing availability by \$1 million. In addition, the Company and PrivateBank agreed to certain specified transactions, which could include the sale or disposition of certain assets. The PB Loan Agreement was amended a second time on August 17, 2012 to modify the definition of earnings before interest, taxes, depreciation and amortization. In conjunction with the announced closure of the Glit division (see note 3), the PB Loan Agreement was amended a third time (the “Third Amendment”) on February 18, 2013. The Third Amendment reduced the revolving credit facility from \$20 million to \$16 million on February 18, 2013 and from \$16 million to \$15 million on March 15, 2013. In addition, the Third Amendment established a new fixed charge ratio covenant.

The PB Loan Agreement, as amended, is a \$15.0 million revolving credit facility, including a \$3.0 million sub-limit for letters of credit. From October 4, 2011 to May 31, 2012 the PB Loan Agreement included a \$2.5 million sub-limit for capital expenditures (“CapEx Sublimit”). The proceeds of the Borrowers’ initial borrowing under the PB Loan Agreement were used to repay the Revolving Credit, Term Loan and Security Agreement, as amended (“PNC Credit Agreement”), with PNC Bank, National Association (“PNC Bank”) and pay fees and expenses associated with the negotiation and consummation of the credit facility. All extensions of credit under the PB Loan Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company and the Borrowers. The Company guarantees the obligations of the Borrowers under the

PB Loan Agreement. There was \$7.7 million and \$10.9 million outstanding under the PB Loan Agreement as of December 31, 2013 and December 31, 2012, respectively.

The PB Loan Agreement has an expiration date of September 29, 2014 and its borrowing base is determined by eligible inventory and accounts receivable, amounting to \$12.0 million at December 31, 2013. The Company's borrowing base under the PB Loan Agreement is reduced by the outstanding amount of standby and commercial letters of credit and any outstanding borrowings under the CapEx Sublimit. There were \$0.2 million in outstanding borrowings under the CapEx Sublimit as of December 31, 2012. Currently, the Company's largest letters of credit relate to its casualty insurance programs. The PB Loan Agreement requires the Company to have a minimum level of availability such that eligible collateral must exceed the sum of its outstanding borrowings and letters of credit by \$1.3 million. Total outstanding letters of credit were \$1.4 million at December 31, 2013. Our unused borrowing availability at December 31, 2013 under the PB Loan Agreement was \$1.6 million.

17

Table of Contents

Borrowings under the PB Loan Agreement bear interest at a per annum rate equal to the sum of the Prime Rate Revolving Loans Applicable Margin plus the Prime Rate (each as defined in the PB Loan Agreement), or an aggregate of 4.75% and 4.25% at December 31, 2013 and December 31, 2012, respectively. An unused commitment fee of 50 basis points per annum is payable monthly on the average unused amount of the PB Loan Agreement.

The PB Loan Agreement includes a financial covenant regarding fixed charge coverage ratio. The Company was in compliance with this financial covenant at December 31, 2013.

All of the debt under the PB Loan Agreement is re-priced to current rates at frequent intervals. Therefore, its fair value approximates its carrying value at December 31, 2013. For the years ended December 31, 2013 and December 31, 2012, the Company had amortization of debt issuance costs, included within interest expense, of \$0.2 million.

The PB Loan Agreement required lockbox agreements which provided for all Company receipts to be swept daily to reduce borrowings outstanding. These agreements, combined with the existence of a material adverse effect (“MAE”) clause in the PB Loan Agreement, caused the revolving credit facility to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The MAE clause, which is a fairly typical requirement in commercial credit agreements, allows the lender to require the loan to become due if it determines there has been a material adverse effect on the Company’s operations, business, properties, assets, liabilities, condition, or prospects. Subsequent to year end the PB Loan Agreement was paid off and replaced with a \$27 million revolver with BMO Harris N.A. (see Note16).

Cash Flows

Cash provided by operating activities before changes in operating assets and liabilities was \$0.9 million for the year ended December 31, 2013; an improvement from \$0.8 million used by operating activities for the year ended December 31, 2012. Changes in operating assets and liabilities provided \$0.7 million for the year ended December 31, 2013 and \$4.0 million for the year ended December 31, 2012. The current year decrease was a result of the prior year having a large decrease in inventory and accounts receivable and a refund of \$2.6 million cash from collateralization of letters of credit in connection with the termination of the PNC Credit Agreement, which was partially offset by an increase in accounts payable.

Cash flows provided by investing activities for the year ended December 31, 2013 increased \$1.3 million from the year ended December 31, 2012 primarily as a result of cash provided by selling Glit division assets in 2012.

Cash flows used in financing activities for the year ended December 31, 2013 reflect a \$3.4 million decrease in our debt levels since December 31, 2012 as a result of the Company paying down the PB loan agreement in 2013.

Off-balance Sheet Arrangements

None.

Transactions with Related and Certain Other Parties

Kohlberg & Co., L.L.C. (“Kohlberg”), an affiliate of Kohlberg Investors IV, L.P., whose affiliate holds all 1,131,551 shares of our Convertible Preferred Stock, provides ongoing management oversight and advisory services to the Company. At December 31, 2013, the Company owed Kohlberg \$2.8 million for these services. We incurred expenses of \$0.5 million for these services in each of 2013 and 2012. We expect to incur \$0.5 million annually for these services in future years.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are more fully described in Note 2 to the Consolidated Financial Statements of Katy included in Part II, Item 8. Certain of our accounting policies as discussed below require the application of significant judgment by management in selecting the appropriate assumptions for calculating amounts to record in our consolidated financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty.

Revenue Recognition – Revenue is recognized for all sales, including sales to distributors, at the time the products are shipped and title has transferred to the customer, provided that a purchase order has been received or a contract has been executed, there are no uncertainties regarding customer acceptances, the sale price is fixed and determinable and collection is deemed probable. The Company’s standard shipping terms are FOB shipping point. Sales discounts, returns and allowances, and cooperative advertising allowances are included in net sales. These provisions are estimated at the time of sale. The provision for doubtful accounts is included in selling, general and administrative expenses.

18

Table of Contents

Stock-based Compensation – Compensation cost recognized during the years ended December 31, 2013 and 2012 includes: a) compensation cost for all stock options granted based on the grant date fair value amortized over the options' vesting period and b) compensation cost for outstanding SARs as of December 31, 2013 and 2012 based on the December 31, 2013 and 2012 fair value, respectively.

Accounts Receivable – We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. We continuously monitor collections and payment from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provision established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Inventories – We value our inventory at the lower of the actual cost to purchase and/or manufacture the inventory or the current net realizable value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory primarily based on our estimated forecast of product demand and production requirements for the next twelve months. Our accounting policies state that business units are to identify, at a minimum, those inventory items that are in excess of either one year's historical or one year's forecasted usage, and to use business judgment in determining which is the more appropriate metric. Those inventory items must then be evaluated on a lower of cost or market basis for realization. A significant increase in the demand for our products could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if our inventory is determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination.

Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or product developments could have a significant impact on the value of our inventory and our reported operating results. Our reserves for excess and obsolete inventory were \$0.5 million and \$0.9 million as of December 31, 2013 and 2012, respectively.

Goodwill and Impairments of Long-Lived Assets – In connection with certain acquisitions, we recorded goodwill representing the cost of the acquisition in excess of the fair value of the net assets acquired. For purposes of evaluating goodwill impairment, the Company consists of one reporting unit, which is the same as the Company itself as a whole. The fair value of the reporting unit is determined annually, or as indicators of impairment are identified, and the fair value is compared to the carrying value of the reporting unit. Fair value is calculated using a combination of a market approach and a discounted cash flow calculation. To execute the market approach, an equity fair value calculation is prepared using the share price of the Company's common stock at selected periods of time multiplied by the total outstanding shares. Our preferred shares are assumed converted into common shares for purposes of this calculation, and an equal weight is placed on each share price used. The discounted cash flow calculation uses management's operating budget to project the following fiscal year's cash flows, and forecasted amounts for the next four years based on management's best estimate of increases in sales and operating expenses as well as gross margin improvements. If the fair value exceeds the carrying value, then no adjustment is necessary. If the carrying value of the reporting unit exceeds the fair value, appraisals are performed of long-lived assets and other adjustments are made to arrive at a revised fair value balance sheet. This revised fair value balance sheet (without goodwill) is compared to the fair value of the business previously determined, and a revised goodwill amount is determined. If the indicated goodwill amount meets or exceeds the current carrying value of goodwill, then no adjustment is required. However, if the result indicates a reduced level of goodwill, an impairment is recorded to state the goodwill at the revised level. Any impairments of goodwill are recorded as a component of income from continuing operations. As of December 31, 2012 the carrying value exceeded the fair value of our reporting unit, therefore we recorded an impairment of \$0.6 million. As of December 31, 2013 and December 31, 2012 we had no goodwill recorded.

We review our long-lived assets for impairment periodically and/or whenever triggering events indicate that an impairment may have occurred. We monitor our operations for triggering events that may cause us to perform an impairment analysis. These events include, among others, loss of product lines, poor operating performance and abandonment of facilities. For assets that are to be held and used, we compare undiscounted future cash flows associated with the asset (or asset group) and determine if the carrying value of the asset (asset group) will be recovered by those cash flows over the remaining useful life of the asset (or of the primary asset of an asset group). If the future undiscounted cash flows indicate that the carrying value of the asset (asset group) will not be recovered, then the asset is marked to fair value. For assets that are to be disposed of by sale or by a means other than by sale, the identified asset (or disposal group if a group of assets or entire business unit) is marked to fair value less costs to sell. In the case of the planned sale of a business unit, disposal groups are reported as discontinued operations on the consolidated financial statements if cash flows of the disposal group are separately identifiable. As of December 31, 2012 the carrying value exceeded the fair value of the assets, therefore we recorded an impairment of \$1.3 million.

19

Table of Contents

Income Taxes – We recognize deferred income tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets also include federal, state and foreign net operating loss carry-forwards, primarily due to the significant operating losses incurred during recent years, as well as various tax credits. We regularly review our deferred income tax assets for recoverability taking into consideration historical net income (losses), projected future income (losses) and the expected timing of the reversals of existing temporary differences. We establish a valuation allowance when it is more likely than not that these assets will not be recovered. As of December 31, 2013, we had a valuation allowance of \$81.9 million. Given the negative evidence provided by our history of operating losses, we were unable to conclude that it is more likely than not that our deferred tax assets would be recoverable through the generation of future taxable income. We will continue to evaluate our valuation allowance requirements based on future operating results and business acquisitions and dispositions, and we may adjust our deferred tax asset valuation allowance. Such changes in our deferred tax asset valuation allowance will be reflected in current operations through our income tax provision.

We also carry liabilities for uncertain tax positions in our Consolidated Financial Statements. The evaluation of a tax position is a two-step process, the first step being recognition. We determine whether it is more-likely-than-not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on only the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority.

Workers' Compensation and General Liabilities – We make payments for workers' compensation and general liability claims generally through the use of a third party claims administrator. We have purchased insurance coverage for large claims over our large deductible, retroactive and self-insured retention levels. Our workers' compensation liabilities are developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. In order to consider a range of possible outcomes, we have based our estimates of liabilities in this area on several different sources of loss development factors, including those from the insurance industry, the manufacturing industry, and factors developed in-house. Our general approach is to identify a reasonable, logical conclusion, typically in the middle range of the possible outcomes. While we believe that our liabilities for workers' compensation and general liability claims as of December 31, 2013 are adequate and that the judgment applied is appropriate, such estimated liabilities could differ materially from what will actually transpire in the future.

Environmental and Other Contingencies – We and certain of our current and former direct and indirect corporate predecessors, subsidiaries and divisions are involved in remedial activities at certain present and former locations and have been identified by the United States Environmental Protection Agency, state environmental agencies and private parties as potentially responsible parties ("PRPs") at a number of hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") or equivalent state laws and, as such, may be liable for the cost of cleanup and other remedial activities at these sites. Responsibility for cleanup and other remedial activities at a Superfund site is typically shared among PRPs based on an allocation formula. Under the federal Superfund statute, parties could be held jointly and severally liable, thus subjecting them to potential individual liability for the entire cost of cleanup at the site. Based on our estimate of allocation of liability among PRPs, the probability that other PRPs, many of whom are large, solvent, public companies, will fully pay the costs apportioned to them, currently available information concerning the scope of contamination, estimated remediation costs, estimated legal fees and other factors, we have recorded and accrued for environmental liabilities in amounts that we deem reasonable. The ultimate costs will depend on a number of factors and the amount currently accrued represents our best current estimate of the total costs to be incurred. We expect this amount to be substantially paid over the next one to ten years. See Note 13 to the Consolidated Financial Statements in Part II, Item 8.

Severance, Restructuring and Related Charges – We have completed several cost reduction and facility consolidation initiatives including the closure or consolidation of manufacturing, distribution and office facilities, and the centralization of business units. These initiatives have resulted in significant severance, restructuring and related charges. Included in these charges are one-time termination benefits including severance, benefits and other employee-related costs associated with employee terminations; contract termination costs mostly related to non-cancelable lease liabilities for abandoned facilities, net of sub-lease revenue; and other costs associated with the consolidation of administrative and operational functions. We recognize costs (including costs for one-time termination benefits) associated with exit or disposal activities as they are incurred.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Financial Statements in Part II, Item 8 for a discussion of new accounting pronouncements and the potential impact to the Company's consolidated results of operations and financial position.

Table of Contents

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Katy Industries, Inc.

We have audited the accompanying consolidated balance sheets of Katy Industries, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), stockholders' (deficit) equity, and cash flows for each of the years in the two-year period ended December 31, 2013. Katy Industries, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Katy Industries, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

St. Louis, Missouri
March 31, 2014
21

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 AS OF DECEMBER 31, 2013 and 2012
 (Amounts in Thousands)

ASSETS

| | 2013 | 2012 |
|--|----------|----------|
| CURRENT ASSETS: | | |
| Cash | \$708 | \$621 |
| Trade accounts receivable, net of allowances of \$171 and \$38 | 7,206 | 9,270 |
| Inventories, net | 10,004 | 12,733 |
| Other current assets | 663 | 1,456 |
| Assets held for sale | 74 | 1,675 |
| | | |
| Total current assets | 18,655 | 25,755 |
| | | |
| OTHER ASSETS: | 1,375 | 1,835 |
| | | |
| PROPERTY AND EQUIPMENT | | |
| Land and improvements | 251 | 251 |
| Buildings and improvements | 3,080 | 3,084 |
| Machinery and equipment | 52,164 | 51,783 |
| | | |
| | 55,495 | 55,118 |
| Less - Accumulated depreciation | (48,533) | (46,716) |
| | | |
| Property and equipment, net | 6,962 | 8,402 |
| | | |
| Total assets | \$26,992 | \$35,992 |

See Notes to Consolidated Financial Statements.

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 AS OF DECEMBER 31, 2013 and 2012
 (Amounts in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY

| | 2013 | 2012 |
|---|-----------|-----------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$5,983 | \$6,172 |
| Book overdraft | 264 | 493 |
| Accrued compensation | 1,411 | 1,423 |
| Accrued expenses | 7,062 | 8,775 |
| Payable to related party | 2,750 | 2,250 |
| Deferred revenue | 186 | 688 |
| Revolving credit agreement | 7,706 | 10,903 |
| | | |
| Total current liabilities | 25,362 | 30,704 |
| | | |
| DEFERRED REVENUE | 316 | 1,917 |
| | | |
| OTHER LIABILITIES | 3,794 | 5,964 |
| | | |
| Total liabilities | 29,472 | 38,585 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 14) | | |
| | | |
| STOCKHOLDERS' (DEFICIT) EQUITY | | |
| 15% Convertible preferred stock, \$100 par value; authorized 1,200,000 shares; issued and outstanding 1,131,551 shares; liquidation value \$113,155 | 108,256 | 108,256 |
| Common stock, \$1 par value; authorized 35,000,000 shares; issued 9,822,304 shares | 9,822 | 9,822 |
| Additional paid-in capital | 27,110 | 27,110 |
| Accumulated other comprehensive loss | (848) | (2,463) |
| Accumulated deficit | (125,383) | (123,881) |
| Treasury stock, at cost, 1,871,128 shares | (21,437) | (21,437) |
| | | |
| Total stockholders' (deficit) equity | (2,480) | (2,593) |
| | | |
| Total liabilities and stockholders' (deficit) equity | \$26,992 | \$35,992 |

See Notes to Consolidated Financial Statements.

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012
(Amounts in Thousands, Except Per Share Data)

| | 2013 | 2012 |
|---|-----------|------------|
| Net sales | \$78,256 | \$80,315 |
| Cost of goods sold | 66,359 | 68,060 |
| Gross profit | 11,897 | 12,255 |
| Selling, general and administrative expenses | 12,287 | 15,224 |
| Severance, restructuring and related charges | 338 | - |
| Impairment of long-lived assets | - | 1,934 |
| Loss on sale or disposal of assets | 230 | - |
| Operating loss | (958) | (4,903) |
| Interest expense | (767) | (730) |
| Other, net | 171 | 279 |
| Loss from continuing operations before income tax | (1,554) | (5,354) |
| Income tax expense from continuing operations | (21) | (19) |
| Loss from continuing operations | (1,575) | (5,373) |
| Income (loss) from operations of discontinued businesses (net of tax) | 73 | (9,453) |
| Loss on sale of discontinued businesses (net of tax) | - | (280) |
| Net loss | (1,502) | (15,106) |
| Other comprehensive (loss) income | | |
| Foreign currency translation | (71) | 36 |
| Pension and other postretirement benefits | 1,686 | (138) |
| Total comprehensive income (loss) | \$113 | \$(15,208) |
| Net loss per share of common stock - Basic and Diluted | | |
| Loss from continuing operations | \$(0.20) | \$(0.68) |
| Discontinued operations | 0.01 | (1.22) |
| Net loss | \$(0.19) | \$(1.90) |

See Notes to Consolidated Financial Statements.

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012
 (Amounts in Thousands, Except Share Data)

| | Convertible Preferred Stock | | Common Stock | | Additional | Accumulated | Accumulated | Treasury | Total |
|---|-----------------------------|------------|--------------|----------|------------|-------------|--------------|-------------|------------------|
| | Number of | Par | Number of | Par | Paid-in | Other | Deficit | Stock | Stockholders' |
| | Shares | Value | Shares | Value | Capital | Loss | Deficit | Stock | (Deficit) Equity |
| Balance, January 1, 2011 | 1,131,551 | \$ 108,256 | 9,822,304 | \$ 9,822 | \$ 27,110 | \$(2,361) | \$(108,775) | \$(21,437) | \$ 12,615 |
| Net loss | - | - | - | - | - | - | (15,106) | - | (15,106) |
| Foreign currency translation adjustment | - | - | - | - | - | 36 | - | - | 36 |
| Pension and other postretirement benefits | - | - | - | - | - | (138) | - | - | (138) |
| Balance, December 31, 2012 | 1,131,551 | \$ 108,256 | 9,822,304 | \$ 9,822 | \$ 27,110 | \$(2,463) | \$(123,881) | \$(21,437) | \$(2,593) |
| Net loss | - | - | - | - | - | - | (1,502) | - | (1,502) |
| Foreign currency translation adjustment | - | - | - | - | - | (71) | - | - | (71) |
| Pension and other postretirement benefits | - | - | - | - | - | 1,686 | - | - | 1,686 |
| Balance, December 31, 2013 | 1,131,551 | \$ 108,256 | 9,822,304 | \$ 9,822 | \$ 27,110 | \$(848) | \$(125,383) | \$(21,437) | \$(2,480) |

See Notes to Consolidated Financial Statements.

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012
(Amounts in Thousands)

| | 2013 | 2012 |
|--|-----------|------------|
| Cash flows from operating activities: | | |
| Net loss | \$(1,502) | \$(15,106) |
| (Income) loss from discontinued operations | (73) | 9,733 |
| Loss from continuing operations | (1,575) | (5,373) |
| Depreciation | 2,034 | 2,163 |
| Impairment of long-lived assets | - | 1,934 |
| Amortization of intangible assets | - | 249 |
| Write-off and amortization of debt issuance costs | 209 | 238 |
| Stock-based compensation | 13 | (11) |
| Loss on sale or disposal of assets | 230 | - |
| | 911 | (800) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (446) | 934 |
| Inventories | 654 | 899 |
| Other assets | 579 | 3,218 |
| Accounts payable | 664 | (2,346) |
| Accrued expenses | (594) | 649 |
| Payable to related party | 500 | 500 |
| Deferred Revenue | (195) | (186) |
| Other liabilities | (511) | 227 |
| | 651 | 3,895 |
| Net cash provided by continuing operations | 1,562 | 3,095 |
| Net cash provided by discontinued operations | 764 | 458 |
| Net cash provided by operating activities | 2,326 | 3,553 |
| Cash flows from investing activities: | | |
| Capital expenditures | (566) | (844) |
| Net cash used in continuing operations | (566) | (844) |
| Net cash provided by discontinued operations | 1,913 | 863 |
| Net cash provided by investing activities | 1,347 | 19 |
| Cash flows from financing activities: | | |
| Net repayments on revolving loans | (3,197) | (3,481) |
| Decrease in book overdraft | (229) | (453) |
| Net cash used in financing activities | (3,426) | (3,934) |
| Effect of exchange rate changes on cash from continuing operations | (142) | 456 |
| Effect of exchange rate changes on cash from discontinued operations | (18) | (203) |
| Net effect of exchange rate changes on cash | (160) | 253 |
| Net increase (decrease) in cash | 87 | (109) |
| Cash, beginning of period | 621 | 730 |
| Cash, end of period | \$708 | \$621 |

See Notes to Consolidated Financial Statements.

26

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2013 and 2012

Note 1. ORGANIZATION OF THE BUSINESS

Katy Industries, Inc. (“Katy” or the “Company”) was organized as a Delaware corporation in 1967. The activities of the Company include the manufacture, import and distribution of a variety of commercial cleaning supplies and storage products. Principal geographic markets are in the United States and Canada and include the sanitary maintenance, foodservice, mass merchant retail and home improvement markets.

Note 2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy – The consolidated financial statements include the accounts of Katy Industries, Inc. and subsidiaries in which it has a greater than 50% voting interest or significant influence, collectively “Katy” or the “Company”. All significant intercompany accounts, profits and transactions have been eliminated in consolidation. Investments in affiliates which do not meet the criteria of a variable interest entity, and which are not majority owned but with respect to which the Company exercises significant influence, are reported using the equity method.

As discussed in Note 3, on July 24, 2012, the Company announced the closure of the Container division in Norwalk California; on September 20, 2012 the Company sold certain assets related to the Gemtex division and on January 24, 2013 the Company announced the closure of the Glit division. The Company accounted for these divisions as discontinued operations, and accordingly, has reclassified the financial results for all periods presented to reflect them as such. Unless otherwise noted, discussions in these notes pertain to the Company’s continuing operations.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition – Revenue is recognized for all sales, including sales to distributors, at the time the products are shipped and title has transferred to the customer, provided that a purchase order has been received or a contract has been executed, there are no uncertainties regarding customer acceptances, the sale price is fixed and determinable and collection is deemed probable. The Company’s standard shipping terms are FOB shipping point. Sales are net of provisions for returns, discounts, customer allowances (such as volume rebates) and cooperative advertising allowances. The Company’s sales arrangements do not typically contain standard right of return provisions or limit returns at a certain percentage of sales price or margin; however, in certain instances where a product may be returned, the Company recognizes revenue only if all of the following conditions are met: a) the sale price is substantially fixed or determinable at date of sale; b) buyer has either paid or is obligated to pay the seller and the obligation is not contingent on resale of the product; c) buyer’s obligation to seller would not be changed in the event of theft or physical destruction of the product; d) buyer has economic substance apart from the seller; e) seller does not have significant obligations for future performance to directly bring about the resale of product by the buyer; and f) the amount of future returns can be reasonably estimated (i.e. defective/wrong products). The Company records discounts, customer allowances and cooperative advertising allowances as reductions of revenue, provisions for which are estimated on a periodic basis based on historical experience.

Deferred Revenue – In connection with the sale of the DISCO division of Continental Commercial Products, Inc. (“CCP”) on October 4, 2011, the Company entered into a supply agreement (the “Supply Agreement”) with DISCO Acquisition Corp. (the “Buyer”) whereby the Company will provide certain products to the Buyer, in accordance with

the Supply Agreement, for a term ending September 30, 2016. A portion of the proceeds from the sale were deemed to be related to this Supply Agreement and were therefore deferred and will be amortized over the term of the Supply Agreement. This amortization period is expected to approximate the timing and quantity of shipments under the Supply Agreement. During the year ended December 31, 2013 and December 31, 2012, the Company recognized \$2.1 million and \$0.7 million as revenue, respectively. As of December 31, 2013, \$0.5 million was recorded as deferred revenue, \$0.2 million of which was current and \$0.3 million of which was long-term.

Table of Contents

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs expensed in 2013 and 2012 were \$0.3 million and \$0.4 million, respectively.

Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance in part based on its historical write-off experience. The Company reviews its allowance for doubtful accounts quarterly, which includes a review of past due balances over 30 days. All other balances are reviewed on a pooled basis by market distribution channels. Account balances are charged off against the allowance when the Company determines it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

Concentration of Credit Risk – Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. At times, cash in banks is in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limit and the Canada Deposit Insurance Corporation for our Canadian operations. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Inventories – Inventories are stated at the lower of cost or market value, and reserves are established for excess and obsolete inventory in order to ensure proper valuation of inventories. Cost includes materials, labor and overhead. At December 31, 2013 and 2012, approximately 80% and 65%, respectively, of the Company’s inventories were accounted for using the last-in, first-out (“LIFO”) method of costing, while the remaining inventories were accounted for using the first-in, first-out (“FIFO”) method. Current cost, as determined using the FIFO method, exceeded LIFO cost by \$4.4 million and \$4.2 million at December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and December 31, 2012 the Company recognized a loss of \$0.1 million and \$0.6 million, respectively, of LIFO valuation adjustments. The components of inventories are:

| | December 31, | |
|--------------------|---------------------------|----------|
| | 2013 | 2012 |
| | (Amounts in Thousands) | |
| Raw materials | \$5,803 | \$6,133 |
| Finished goods | 9,101 | 11,708 |
| Inventory reserves | (534) | (871) |
| LIFO reserve | (4,366) | (4,237) |
| | \$10,004 | \$12,733 |

Goodwill – Goodwill represents the excess purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is tested for impairment annually as of the end of the fourth quarter. For purposes of evaluating goodwill impairment, the Company consists of one reporting unit, which is the same as the Company itself as a whole. The fair value of the reporting unit is determined annually, or as indicators of impairment are identified, and the fair value is compared to the carrying value of the reporting unit. Fair value is calculated using a combination of a market approach and a discounted cash flow calculation. To execute the market approach, an equity fair value calculation is prepared using the share price of the Company’s common stock at selected periods of time multiplied by the total outstanding shares. Preferred shares are assumed converted into common shares for purposes of this calculation, and an equal weight is placed on each share price used. The discounted cash flow calculation uses management’s operating budget to project the following fiscal year’s cash flows, and forecasted amounts for the next four years based on management’s best estimate of increases in sales and operating expenses as well as gross margin improvements. If the fair value exceeds the carrying value, then no adjustment is necessary. If the carrying value of

the reporting unit exceeds the fair value, appraisals are performed of long-lived assets and other adjustments are made to arrive at a revised fair value balance sheet. This revised fair value balance sheet (without goodwill) is compared to the fair value of the business previously determined, and a revised goodwill amount is determined. If the indicated goodwill amount meets or exceeds the current carrying value of goodwill, then no adjustment is required. However, if the result indicates a reduced level of goodwill, an impairment is recorded to state the goodwill at the revised level. Any impairments of goodwill are recorded as a component of income from continuing operations. As of December 31, 2012 the carrying value exceeded the fair value of our reporting unit, therefore we recorded an impairment of \$0.6 million. As of December 31, 2013 and December 31, 2012 we had no goodwill recorded.

Property and Equipment – Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives: buildings (10-40 years); machinery and equipment (3-20 years); and leasehold improvements over the remaining lease period or useful life, if shorter. Costs for repair and maintenance of machinery and equipment are expensed as incurred, unless the result significantly increases the useful life or functionality of the asset, in which case capitalization is considered. Depreciation expense from continuing operations for 2013 and 2012 was \$2.0 million and \$2.2 million, respectively.

28

Table of Contents

An asset retirement obligation associated with the retirement of a tangible long-lived asset is recognized as a liability in the period in which it is incurred or becomes determinable, with an associated increase in the carrying amount of the related long-term asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset. As of December 31, 2013, the Company has recorded an asset of \$0.1 million and related liability of \$0.7 million for retirement obligations associated with returning certain leased properties to the respective lessors upon the termination of the lease arrangements. A summary of the changes in asset retirement obligation is included in the table below (amounts in thousands):

| | |
|--|-------|
| Asset retirement obligation at January 1, 2012 | \$953 |
| Accretion expense | 34 |
| Write-off from closure and sale of discontinued businesses | (336) |
| Asset retirement obligation at December 31, 2012 | 651 |
| Accretion expense | 30 |
| Asset retirement obligation at December 31, 2013 | \$681 |

On January 1, 2009, the Company entered into a new lease agreement for its largest facility in Bridgeton, Missouri. In connection with the new lease agreement the Company was granted a tenant improvement allowance of \$0.7 million in 2009. The allowance was recorded as leasehold improvement assets and is being depreciated over the term of the new lease. The Company also recorded a deferred rent liability of \$0.7 million in 2009 which is being amortized as a reduction of rental expense over the term of the new lease on a straight-line basis. The balance of the deferred rent liability was \$0.4 million at December 31, 2013 and 2012.

Impairment of Long-lived Assets – Long-lived assets, other than goodwill which is discussed above, are reviewed for impairment if events or circumstances indicate the carrying amount of these assets may not be recoverable through future undiscounted cash flows. If this review indicates that the carrying value of these assets will not be recoverable, based on future undiscounted net cash flows from the use or disposition of the asset, the carrying value is reduced to fair value.

Segment Reporting – Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker or group in deciding how to allocate resources and in assessing performance. The Company's chief decision maker reviews the results of operations and requests for capital expenditures based on one industry segment: manufacturing, importing and distributing commercial cleaning and storage products. The Company's entire revenue is generated through this segment.

Shipping and Handling Costs – Shipping and handling costs are recorded as a component of cost of goods sold.

Income Taxes – Income taxes are accounted for using a balance sheet approach known as the liability method. The liability method accounts for deferred income taxes by applying the statutory tax rates in effect at the date of the balance sheet to the differences between the book basis and tax basis of the assets and liabilities. The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred income tax asset will not be realizable. See Note 9.

Foreign Currency Translation – The results of the Company's Canadian subsidiaries are translated to U.S. dollars using the current-rate method. Assets and liabilities are translated at the year-end spot exchange rate, revenue and expenses at average exchange rates and equity transactions at historical exchange rates. Exchange differences arising on translation are recorded as a component of accumulated other comprehensive loss. The Company recorded losses on foreign exchange transactions (included in Other, net in the Consolidated Statements of Operations) of \$1,000 and \$20,000 in 2013 and 2012, respectively.

Accumulated Other Comprehensive Loss – The components of accumulated other comprehensive loss are foreign currency translation adjustments and pension and other postretirement benefits adjustments. The balance of the foreign currency translation adjustments account was \$0.6 and \$0.5 million at December 31, 2013 and 2012, respectively. The balance of the pension and other postretirement benefits adjustments account was \$0.3 million and \$1.9 million at December 31, 2013 and 2012, respectively.

29

Table of Contents

Fair Value of Financial Instruments – Appropriate disclosures have been made in the Notes to the Consolidated Financial Statements where the fair values of the Company’s financial instrument assets and liabilities differ from their carrying value or the Company is unable to establish the fair value without incurring excessive costs. All other financial instrument assets and liabilities not specifically addressed are believed to be carried at their fair value in the accompanying Consolidated Balance Sheets.

Stock Options and Other Stock Awards – Compensation cost recognized during the years ended December 31, 2013 and 2012 includes: a) compensation cost for all stock options based on the grant date fair value amortized over the options’ vesting period and b) compensation cost for outstanding stock appreciation rights (“SARs”) as of December 31, 2013 and 2012 based on the respective December 31 fair value. The Company re-measures the fair value of SARs each reporting period until the award is settled and compensation expense is recognized each reporting period for changes in fair value and vesting.

The following table shows total compensation expense (see Note 8 for descriptions of Stock Incentive Plans) included in the Consolidated Statements of Operations for the years ended December 31 (amounts in thousands):

| | 2013 | 2012 |
|---------------------------------|--------|--------|
| Stock appreciation right income | \$(13) | \$(11) |

The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. As the Company does not have sufficient historical exercise data to provide a basis for estimating the expected term, the Company uses the simplified method for estimating the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimates volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. No stock options were granted during the years ended December 31, 2013 or 2012.

The fair value of SARs, a liability award, was estimated at December 31, 2013 and 2012 using a Black-Scholes option pricing model. The Company estimated the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate was the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The assumptions for expected term, volatility and risk-free rate are presented in the table below:

| | December 31, 2013 | 2012 |
|-------------------------|----------------------|-----------------|
| Expected term (years) | 0.1- 4.7 | 0.1- 4.7 |
| Volatility | 302.2% - 368.3% | 203.3% - 464.4% |
| Risk-free interest rate | 0.1% - 1.6% | 0.1% - 0.7% |

Recently Adopted Accounting Standards – In July 2012, the FASB issued guidance concerning the testing of indefinite-lived intangible assets for impairment. This guidance gives an entity the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity

concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, Intangibles-Goodwill and Other, General Intangibles Other than Goodwill. Under the guidance, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this Accounting Standards Update (ASU) are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The amendments in this ASU did not have a material impact on the consolidated financial statements.

Table of Contents

Recently Issued Accounting Standards – In March of 2013, the Financial Accounting Standards Board (“FASB”) issued amended guidance that resolves the diversity in practice for the accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity. The amended guidance requires that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income in instances when a sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amended guidance clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. In these instances, an entity is required to release the cumulative translation adjustment into net income. We will adopt the FASB’s amended guidance during the three months ended March 31, 2014. We do not expect the adoption of the guidance to have a significant impact on our financial position, results of operations or cash flows.

Note 3. DISCONTINUED OPERATIONS

On January 24, 2013, the Company announced the closure of the Glit division of Continental Commercial Products, LLC. The Company ceased the majority of the operations of the division in the first quarter of 2013. In addition, the Company sold certain assets related to the Glit division in the second quarter of 2013. The Company used the net proceeds from the sale of assets to settle the outstanding operating liabilities related to the division, pay off the outstanding borrowing related to the CapEx Sublimit (see Note 4), and reduce the outstanding balance under the PB Loan Agreement (as defined in Note 4 below).

On July 24, 2012, the Company announced the closure of the Container division of CCP. The Company sold certain assets related to the Container division for \$0.6 million.

On September 20, 2012, the Company sold certain assets related to the Gemtex division to 2340258 Ontario, Inc. (the “Buyer”), a corporation incorporated under the laws of the Province of Ontario, for \$1.0 million, \$0.7 million of which will be payable in 48 monthly installments subject to certain prepayment requirements in connection with the generation of excess cash by the Buyer. The Company used the net proceeds from the transaction to reduce its outstanding balance under the PB Loan Agreement (see Note 4).

The closure of the Glit and Container divisions and the sale of the Gemtex division met the criteria for classification as discontinued operations in accordance with GAAP; therefore, the Company has classified the results of the Glit, Container, and Gemtex divisions as discontinued operations for all periods presented. The assets sold as part of the Glit division have been recorded as assets held for sale at December 31, 2012. Selected financial data for discontinued operations is summarized as follows (amounts in thousands):

| | For the Year Ended December 31, 2013 | | | |
|--------------------------------------|--|-----------------------|--------------------|------------------|
| | Total | Container Division | Gemtex Division | Glit Division |
| Net sales | \$7,991 | \$ - | \$ - | \$ 7,991 |
| Operating income (loss) - net of tax | \$73 | \$ (333) | \$ 12 | \$ 394 |

Table of Contents

| | For the Year Ended December 31, 2012 | | | |
|-----------------------------|--|-----------------------|--------------------|------------------|
| | Total | Container Division | Gemtex Division | Glit Division |
| Net sales | \$33,111 | \$ 8,547 | \$4,419 | \$20,145 |
| Operating loss - net of tax | \$(9,453) | \$(386) | \$(1,164) | \$(7,903) |
| Loss on sale - net of tax | \$(280) | \$ - | \$(280) | \$ - |

The components of assets and liabilities held for sale as of December 31, 2013 and December 31, 2012 are as follows (amounts in thousands):

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Property and equipment, net | \$ - | \$ 1,300 |
| Intangibles | - | 375 |
| Receivables from property and equipment sales | 74 | - |
| | \$ 74 | \$ 1,675 |

Note 4. INDEBTEDNESS

On October 4, 2011, CCP, Glit/Gemtex, Ltd. and 3254018 Nova Scotia Limited (collectively, the “Borrowers”), wholly-owned subsidiaries of the Company, entered into a Loan and Security Agreement (as amended, the “PB Loan Agreement”) with the PrivateBank and Trust Company (“PrivateBank”). On May 31, 2012, the PB Loan Agreement was amended (the “First Amendment”) to provide additional flexibility under the financial covenants by replacing the minimum fixed charge ratio covenant for the period of April 27, 2012 to October 26, 2012, with a minimum earnings before interest, taxes, depreciation and amortization covenant and reduced the borrowing availability by \$1 million. In addition, the Company and PrivateBank agreed to certain specified transactions, which could include the sale or disposition of certain assets. The PB Loan Agreement was amended a second time on August 17, 2012 to modify the definition of earnings before interest, taxes, depreciation and amortization. In conjunction with the announced closure of the Glit division (see note 3), the PB Loan Agreement was amended a third time (the “Third Amendment”) on February 18, 2013. The Third Amendment reduced the revolving credit facility from \$20 million to \$16 million on February 18, 2013 and from \$16 million to \$15 million on March 15, 2013. In addition, the Third Amendment established a new fixed charge ratio covenant.

The PB Loan Agreement, as amended, is a \$15.0 million revolving credit facility, including a \$3.0 million sub-limit for letters of credit. From October 4, 2011 to May 31, 2012 the PB Loan Agreement included a \$2.5 million sub-limit for capital expenditures (“CapEx Sublimit”). The proceeds of the Borrowers’ initial borrowing under the PB Loan Agreement were used to repay the Revolving Credit, Term Loan and Security Agreement, as amended (“PNC Credit Agreement”), with PNC Bank, National Association (“PNC Bank”) and pay fees and expenses associated with the negotiation and consummation of the credit facility. All extensions of credit under the PB Loan Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company and the Borrowers. The Company guarantees the obligations of the Borrowers under the PB Loan Agreement. There was \$7.7 million and \$10.9 million outstanding under the PB Loan Agreement as of December 31, 2013 and December 31, 2012, respectively.

The PB Loan Agreement has an expiration date of September 29, 2014 and its borrowing base is determined by eligible inventory and accounts receivable, amounting to \$12.0 million at December 31, 2013. The Company's borrowing base under the PB Loan Agreement is reduced by the outstanding amount of standby and commercial letters of credit and any outstanding borrowings under the CapEx Sublimit. There were \$0.2 million in outstanding borrowings under the CapEx Sublimit as of December 31, 2012. Currently, the Company's largest letters of credit relate to its casualty insurance programs.

32

Table of Contents

The PB Loan Agreement requires the Company to have a minimum level of availability such that eligible collateral must exceed the sum of its outstanding borrowings and letters of credit by \$1.3 million. Total outstanding letters of credit were \$1.4 million at December 31, 2013. Our unused borrowing availability at December 31, 2013 under the PB Loan Agreement was \$1.6 million.

Borrowings under the PB Loan Agreement bear interest at a per annum rate equal to the sum of the Prime Rate Revolving Loans Applicable Margin plus the Prime Rate (each as defined in the PB Loan Agreement), or an aggregate of 4.75% and 4.25% at December 31, 2013 and December 31, 2012, respectively. An unused commitment fee of 50 basis points per annum is payable monthly on the average unused amount of the PB Loan Agreement.

The PB Loan Agreement includes a financial covenant regarding fixed charge coverage ratio. The Company was in compliance with this financial covenant at December 31, 2013.

All of the debt under the PB Loan Agreement is re-priced to current rates at frequent intervals. Therefore, its fair value approximates its carrying value at December 31, 2013. For the years ended December 31, 2013 and December 31, 2012, the Company had amortization of debt issuance costs, included within interest expense, of \$0.2 million.

The PB Loan Agreement required lockbox agreements which provided for all Company receipts to be swept daily to reduce borrowings outstanding. These agreements, combined with the existence of a material adverse effect (“MAE”) clause in the PB Loan Agreement, caused the revolving credit facility to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The MAE clause, which is a fairly typical requirement in commercial credit agreements, allows the lender to require the loan to become due if it determines there has been a material adverse effect on the Company’s operations, business, properties, assets, liabilities, condition, or prospects. Subsequent to year end the PB Loan Agreement was paid off and replaced with a \$27 million revolver with BMO Harris N.A. (see Note16).

Note 5. EARNINGS (LOSS) PER SHARE

The consolidated financial statements include basic and diluted earnings (loss) per share. Diluted per share information is calculated by considering the impact of potential common stock on the weighted average shares outstanding. Potential common stock consists of (a) incremental shares that would be available for issuance upon the assumed exercise of stock options “in the money” based on the average stock price for the respective period and (b) convertible preferred shares accounted for using the “if converted” basis, which assumes their conversion to common stock at a ratio of 16.6:1, pursuant to the terms of the Recapitalization, as defined and described in Note 7. The basic and diluted earnings per share (“EPS”) calculations are as follows:

33

Table of Contents

| | For the Years Ended December 31, | |
|---|---|------------|
| | 2013 | 2012 |
| | (Amounts in Thousands, except per share amounts) | |
| Loss from continuing operations | \$(1,575) | \$(5,373) |
| Discontinued operations | 73 | (9,733) |
| Net loss | \$(1,502) | \$(15,106) |
| | | |
| Average common shares outstanding - Basic and Diluted | 7,951 | 7,951 |
| | | |
| Per share amount - Basic and Diluted: | | |
| Loss from continuing operations | \$(0.20) | \$(0.68) |
| Discontinued operations | 0.01 | (1.22) |
| Net loss | \$(0.19) | \$(1.90) |

As of December 31, 2013, no options were in the money and 12,000 options were out of the money. As of December 31, 2012, no options were in-the-money and 18,000 options were out-of-the money. At December 31, 2013 and 2012, 1,131,551 convertible preferred shares were outstanding, which are in total convertible into 18,859,183 shares of Katy common stock. Convertible preferred shares were not included in the calculation of diluted earnings (loss) per share for the year ended December 31, 2013 and December 31, 2012, respectively, because of their anti-dilutive impact as a result of the Company's net loss position.

Note 6. RETIREMENT BENEFIT PLANS

Pension and Other Postretirement Plans

Certain subsidiaries have pension plans covering substantially all of their employees. These plans are noncontributory, defined benefit pension plans. The benefits to be paid under these plans are generally based on employees' retirement age and years of service. The Company's funding policies, subject to the minimum funding requirements of employee benefit and tax laws, are to contribute such amounts as determined on an actuarial basis to provide the plans with assets sufficient to meet the benefit obligations. Plan assets consist primarily of fixed income investments, corporate equities and government securities. The Company also provides certain health care and life insurance benefits for some of its retired employees. The postretirement health plans are unfunded.

The Company recognizes the overfunded or underfunded positions of defined benefit postretirement plans as an asset or liability in its Consolidated Balance Sheets and recognizes as a component of other comprehensive loss the gains or losses and prior service costs or credits that arise during the period but were not recognized as components of net periodic benefit cost.

The Company expects to contribute \$76,000 to the pension plans in fiscal 2014. The Company uses a December 31 measurement date for its pension and other postretirement benefit plans. The fair value of plan assets was determined by using quoted prices in active markets for identical assets (Level 1 inputs per the fair value hierarchy). The fair value and allocation of pension plan assets is as follows (amounts in thousands):

Table of Contents

| Asset Category | December 31, 2013 | | 2012 | | | |
|-------------------------|------------------------------|------------|------------------------------|------------|--|--|
| | Plan Assets Fair Value | Percentage | Plan Assets Fair Value | Percentage | | |
| Equity Securities | \$670 | 63 % | \$550 | 58 % | | |
| Fixed Income Securities | 272 | 25 % | 273 | 29 % | | |
| Money Market | 113 | 11 % | 103 | 11 % | | |
| Other | 14 | 1 % | 15 | 2 % | | |
| | \$1,069 | 100 % | \$941 | 100 % | | |

The following table presents the funded status of the Company's pension and postretirement benefit plans for the years ended December 31, 2013 and 2012:

| | Pension Benefits | | Other Benefits | |
|--|---------------------------|-----------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Amounts in Thousands) | | | |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | \$1,454 | \$1,395 | \$2,769 | \$2,699 |
| Interest cost | 56 | 64 | 41 | 123 |
| Actuarial (gain) loss | (58) | 122 | (1,598) | 214 |
| Benefits paid | (30) | (127) | (215) | (267) |
| Projected benefit obligation at end of year | \$1,422 | \$1,454 | \$997 | \$2,769 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$941 | \$955 | \$- | \$- |
| Actual return on plan assets | 100 | 46 | - | - |
| Employer contributions | 58 | 67 | 214 | 266 |
| Benefits paid | (30) | (127) | (214) | (266) |
| Fair value of plan assets at end of year | \$1,069 | \$941 | \$- | \$- |
| Funded status at end of year | \$ (353) | \$ (513) | \$ (997) | \$ (2,769) |
| Amounts recognized in Consolidated Balance Sheets: | | | | |
| Other non-current assets | \$(46) | \$(36) | \$- | \$- |
| Accrued expenses | - | - | 146 | 231 |
| Other liabilities | 399 | 549 | 851 | 2,538 |
| Total | \$353 | \$513 | \$997 | \$2,769 |

Accumulated other comprehensive loss at December 31, 2013 and 2012 included unrecognized actuarial losses related to pension benefits of \$0.6 million and \$0.8 million, respectively, that had not yet been recognized in net periodic pension cost. Accumulated other comprehensive loss at December 31, 2013 included unrecognized actuarial gains related to other benefits of \$0.4 million that had not yet been recognized in net periodic pension cost. The actuarial losses and gains included in accumulated other comprehensive loss and expected to be recognized in net periodic pension cost during the fiscal year ending December 31, 2014 are \$37,000 gain for pension benefits and \$17,000 loss for other benefits. The accumulated benefit obligation for all pension plans was \$1.4 million and \$1.5 million at

December 31, 2013 and 2012, respectively.

The following table lists the projected benefit obligation (“PBO”), accumulated benefit obligation (“ABO”) and fair value of plan assets for the pension plans with PBOs and ABOs in excess of plan assets at December 31, 2013 and 2012 (amounts in thousands):

35

Table of Contents

| | 2013 | | 2012 | |
|--------------------------------|------------|-------------|------------|-------------|
| | Projected | Accumulated | Projected | Accumulated |
| | benefit | benefit | benefit | benefit |
| | obligation | obligation | obligation | obligation |
| | exceeds | exceeds | exceeds | exceeds |
| | plan | plan | plan | plan |
| | assets | assets | assets | assets |
| Projected benefit obligation | \$ 1,261 | \$ 1,261 | \$ 1,284 | \$ 1,284 |
| Accumulated benefit obligation | \$ 1,261 | \$ 1,261 | \$ 1,284 | \$ 1,284 |
| Fair value of plan assets | \$ 863 | \$ 863 | \$ 735 | \$ 735 |

The following table presents the assumptions used to determine the Company's benefit obligations at December 31, 2013 and 2012 along with sensitivity of the Company's plans to potential changes in certain key assumptions (dollars in thousands):

| | Pension Benefits | | Other Benefits | |
|--|------------------|--------|----------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Assumptions as of December 31: | | | | |
| Discount rates | 4.25 % | 4.80 % | 4.00 % | 4.80 % |
| Expected long-term return rate on assets | 5.75 % | 6.00 % | N/A | N/A |
| Assumed rates of compensation increases | N/A | N/A | N/A | N/A |
| Medical trend rate pre-65 (initial) | N/A | N/A | 8.00 % | 7.50 % |
| Medical trend rate post-65 (initial) | N/A | N/A | 7.50 % | 7.50 % |
| Medical trend rate (ultimate) | N/A | N/A | 5.00 % | 5.00 % |
| Years to ultimate rate pre-65 | N/A | N/A | 8 | 8 |
| Years to ultimate rate post-65 | N/A | N/A | 8 | 8 |
| <u>Impact of one-percent increase in medical trend rate:</u> | | | | |
| Increase in accumulated postretirement benefit obligation | | | \$ 58 | \$ 287 |
| Increase in service cost and interest cost | | | \$ 2 | \$ 12 |
| <u>Impact of one-percent decrease in medical trend rate:</u> | | | | |
| Decrease in accumulated postretirement benefit obligation | | | \$ 53 | \$ 246 |
| Decrease in service cost and interest cost | | | \$ 2 | \$ 10 |

The discount rate was based on several factors comparing Moody's AA Corporate rate and actuarial-based yield curves. In determining the expected return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, the Company may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

The following table presents components of the net periodic benefit cost for the Company's pension and postretirement benefit plans during 2013 and 2012 (amounts in thousands):

| Pension Benefits | | Other Benefits | |
|------------------|------|----------------|------|
| 2013 | 2012 | 2013 | 2012 |

Edgar Filing: KATY INDUSTRIES INC - Form 10-K

| | | | | |
|---------------------------------|------|------|------|-------|
| Interest cost | \$56 | \$64 | \$41 | \$123 |
| Expected return on plan assets | (55) | (56) | - | - |
| Amortization of net loss (gain) | 48 | 48 | (23) | 44 |
| Net periodic benefit cost | \$49 | \$56 | \$18 | \$167 |

36

Table of Contents

The following table presents estimated future benefit payments (amounts in thousands):

| | Pension Benefits | Other Benefits |
|------------|---------------------|-------------------|
| 2013 | \$ 37 | \$ 145 |
| 2014 | 89 | 145 |
| 2015 | 270 | 113 |
| 2016 | 46 | 100 |
| 2017 | 108 | 95 |
| Thereafter | 387 | 372 |
| | \$ 937 | \$ 970 |

In addition to the plans described above, in 1993 the Company's Board of Directors approved a retirement compensation program for certain officers and employees of the Company and a retirement compensation arrangement for the Company's then Chairman and Chief Executive Officer. The Board approved a total of \$3.5 million to fund such plans. Participants were allowed to defer 50% of their annual compensation as well as be eligible to participate in a profit sharing arrangement in which they vest over a five year period. In 2001, the Company limited participation to existing participants as well as discontinued any profit sharing arrangements. Participants can withdraw from the plan upon the latter of age 62 or termination from the Company. The obligation created by this plan is partially funded. Assets are held in a rabbi trust invested in various mutual funds. Gains and/or losses are earned by the participant. For the unfunded portion of the obligation, interest was accrued at 4% each year until March 2011, when interest earnings were suspended by the Company. The Company had \$0.3 million and \$0.4 million recorded in accrued compensation and other liabilities at December 31, 2013 and 2012, respectively, for this obligation.

401(k) Plans

The Company offers its employees the opportunity to voluntarily participate in the 401(k) plan administered by the Company. The Company makes matching and other contributions in accordance with the provisions of the plan and, under certain provisions, at the discretion of the Company. The Company suspended matching and other contributions on January 1, 2011 and will evaluate on an annual basis whether such contributions will be reinstated. No contributions were made for 2013 and 2012.

The Company also provides to the Union employees, under the terms of the collective bargaining agreement, a fixed contribution to the 401K plan administered by the Union. The contributions were \$136,000 and \$140,000 for 2013 and 2012, respectively.

Note 7. STOCKHOLDERS' EQUITY

Convertible Preferred Stock

On June 28, 2001, the Company completed a recapitalization following an agreement on June 2, 2001 with KKTY Holding Company, LLC ("KKTY"), an affiliate of Kohlberg Investors IV, L.P. (the "Recapitalization"). Under the terms of the Recapitalization, KKTY purchased 700,000 shares of newly issued preferred stock, \$100 par value per share ("Convertible Preferred Stock"), which is convertible into 11,666,666 common shares, for an aggregate purchase price of \$70.0 million. The Convertible Preferred shares were entitled to a 15% payment in kind ("PIK") dividend (that is, dividends in the form of additional shares of Convertible Preferred Stock), compounded annually, which started accruing on August 1, 2001. PIK dividends were paid on August 1, 2002 (105,000 convertible preferred shares, equivalent to 1,750,000 common shares); August 1, 2003 (120,750 convertible preferred shares, equivalent to

2,012,500 common shares); August 1, 2004 (138,862.5 convertible preferred shares equivalent to 2,314,375 common shares); and on December 31, 2004 (66,938.5 convertible preferred shares, equivalent to 1,115,642 common shares). No dividends accrue or are payable after December 31, 2004. If converted, the 11,666,666 common shares, along with the 7,192,517 equivalent common shares from PIK dividends paid through December 31, 2004, would represent approximately 70% of the outstanding shares of common stock as of December 31, 2013, excluding outstanding options. The accruals of the PIK dividends were recorded as a charge to Additional Paid-in Capital due to the Company's accumulated deficit position, and an increase to Convertible Preferred Stock. The dividends were recorded at fair value and reduced earnings available to common shareholders in the calculation of basic and diluted earnings per share.

37

Table of Contents

The Convertible Preferred Stock is convertible at the option of the holder at any time after the earlier of 1) June 28, 2006, 2) board approval of a merger, consolidation or other business combination involving a change in control of the Company, or a sale of all or substantially all of the assets or liquidation of the Company, or 3) a contested election for directors of the Company nominated by KKTY. The preferred shares 1) are non-voting (with limited exceptions), 2) are non-redeemable, except in whole, but not in part, at the Company's option (as approved only by the Class I directors) at any time after June 30, 2021, 3) were entitled to receive cumulative PIK dividends through December 31, 2004, as mentioned above, at a rate of 15% percent, 4) have no preemptive rights with respect to any other securities or instruments issued by the Company, and 5) have registration rights with respect to any common shares issued upon conversion of the Convertible Preferred Stock. Upon a liquidation of the Company, the holders of the Convertible Preferred Stock would receive the greater of (i) an amount equal to the par value (\$100 per share) of their Convertible Preferred Stock, or (ii) an amount that the holders of the Convertible Preferred Stock would have received if their shares of Convertible Preferred Stock were converted into common stock immediately prior to the distribution upon liquidation.

Note 8. STOCK INCENTIVE PLANS

The Company has various stock incentive plans that provide for the granting of stock options, nonqualified stock options, SARs, restricted stock, performance units or shares and other incentive awards to certain employees and directors. Options have been granted at or above the market price of the Company's stock at the date of grant, typically vest over a three-year period, and are exercisable not less than twelve months or more than ten years after the date of grant. Each SAR entitles the holder to receive cash, upon vesting, equal to the excess of the fair market value of a share of the Company's common stock on the date of exercise over the fair market value of such share on the date granted. SARs have been granted at or above the market price of the Company's stock at the date of grant, typically vest over periods up to three years, and expire ten years from the date of issue. No more than 50% of the cumulative number of vested SARs held by an employee can be exercised in any one calendar year.

There are no authorized shares available for grant as of December 31, 2013 due to the expiration of previously approved plans. A summary of the status of the Company's stock option plans as of December 31, 2013, and changes during the year then ended is presented in the table below:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (in thousands) |
|---|----------|--|---|--|
| Outstanding at January 1, 2013 | 18,000 | \$ 4.64 | | |
| Granted | - | - | | |
| Expired | (6,000) | 4.31 | | |
| Outstanding at December 31, 2013 | 12,000 | \$ 4.80 | 0.9 years | \$ - |
| Vested and Exercisable at December 31, 2013 | 12,000 | \$ 4.80 | 0.9 years | \$ - |

A summary of the status of the Company's SARs plans as of December 31, 2013, and changes during the year then ended is presented in the table below:

Table of Contents

| | SARs |
|--|----------|
| Non-Vested at January 1, 2013 | 3,334 |
| Granted | 4,000 |
| Vested | (7,334) |
| Cancelled | - |
| Non-Vested at December 31, 2013 | - |
| Total Outstanding at December 31, 2013 | 171,000 |

At December 31, 2013, the aggregate liability related to SARs was \$20,000 and is included in accrued expenses in the Consolidated Balance Sheets.

See Note 2 for a discussion of accounting for stock awards and related fair value disclosures.

Note 9. INCOME TAXES

The income tax provision (benefit) is based on the following pre-tax income (loss):

| | For the Years Ended December 31, 2013 2012 (Amounts in Thousands) | |
|----------|--|-------------|
| Domestic | \$ (1,460) | \$ (12,976) |
| Foreign | (21) | (2,111) |
| Total | \$ (1,481) | \$ (15,087) |

The income tax provision (benefit) consists of the following:

| | For the Years Ended December 31, 2013 2012 (Amounts in Thousands) | |
|------------------------|---|------|
| Current tax provision: | | |
| Federal | \$ - | \$ - |

Edgar Filing: KATY INDUSTRIES INC - Form 10-K

| | | |
|-----------------|-------|-------|
| State | 21 | 19 |
| Total provision | \$ 21 | \$ 19 |
| Total provision | \$ 21 | \$ 19 |

Actual income taxes reported from continuing operations are different than what would have been computed by applying the federal statutory tax rate to income from continuing operations before income taxes. The reasons for this difference are as follows:

39

Table of Contents

| | For the Years Ended December 31, 2013 2012 (Amounts in Thousands) | |
|---|--|-----------|
| Benefit from income taxes at statutory rate | \$(501) | \$(5,280) |
| State income taxes, net of federal benefit | 14 | 12 |
| Net operating losses adjustments | (18) | (112) |
| Valuation allowance adjustments | 187 | 5,344 |
| Permanent items | 8 | 17 |
| Reduction of tax reserves | 332 | - |
| Other, net | (1) | 38 |
| Net provision for income taxes | \$21 | \$19 |

The significant components of the Company's deferred income tax liabilities and assets are as follows:

| | As of December 31, 2013 2012 (Amounts in Thousands) | |
|---|--|----------|
| Deferred tax liabilities | | |
| Inventory costs | \$(642) | \$(514) |
| Deferred tax assets | | |
| Allowance for doubtful receivables | \$67 | \$14 |
| Accrued expenses and other items | 5,049 | 9,354 |
| Difference between book and tax bases of property | (292) | (879) |
| Operating loss carry-forwards - domestic | 62,068 | 58,179 |
| Operating loss carry-forwards - foreign | 2,663 | 2,240 |
| Tax credit carry-forwards | 12,967 | 13,299 |
| | 82,522 | 82,207 |
| Less valuation allowance | (81,880) | (81,693) |
| | 642 | 514 |
| Net deferred income tax asset | \$- | \$- |

At December 31, 2013, the Company had approximately \$165.6 million of Federal net operating loss carry-forwards ("Federal NOLs"), which will expire in years 2020 through 2033 if not utilized prior to that time. The remainder of the Company's domestic and foreign net operating loss carry-forwards relate to certain U.S. operating subsidiaries, and the Company's Canadian operations, respectively, and can only be used to offset income from these operations. At December 31, 2013, the Company's Canadian subsidiary has Canadian net operating loss carry-forwards of approximately \$7.8 million that will expire in 2028 through 2033. The tax credit carry-forwards relate to United States federal minimum tax credits of \$1.2 million that have no expiration date, general business credits of \$0.1 million that expire in years 2020 through 2022, and foreign tax credit carryovers of \$11.7 million that expire in years 2014 through 2017.

Valuation allowances are recorded when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. A history of operating losses incurred by the domestic and foreign subsidiaries provides significant negative evidence with respect to the Company's ability to generate future taxable income, a

requirement in order to recognize deferred tax assets. For this reason, the Company was unable to conclude that it was more likely than not that certain deferred tax assets would be utilized in the future. The valuation allowance relates to federal, state and foreign net operating loss carry-forwards, foreign and domestic tax credits, and certain other deferred tax assets to the extent they exceed deferred tax liabilities.

Accounting for Uncertainty in Income Taxes

A reconciliation of the beginning and ending balance for liabilities associated with unrecognized tax benefits is as follows (amounts in thousands):

40

Table of Contents

| | |
|---|--------|
| Balances at December 31, 2011 | \$ 109 |
| Tax positions related to prior years | - |
| Reductions for tax positions related to prior years | - |
| Lapse of applicable statute of limitations | - |
| Balances at December 31, 2012 | 109 |
| Tax positions related to prior years | - |
| Reductions for tax positions related to prior years | - |
| Lapse of applicable statute of limitations | - |
| Balances at December 31, 2013 | \$ 109 |

At December 31, 2013 and 2012, the Company had reserves totaling \$0.1 million, primarily for various foreign income tax issues all of which, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties accrued related to the unrecognized tax benefits in the provision for income taxes. During 2013 and 2012, the Company recognized an insignificant amount in interest and penalties. The Company had approximately \$25,000 for the payment of interest and penalties accrued at December 31, 2013 and 2012.

The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will change within the next twelve months. The Company has certain tax return years subject to statutes of limitation which will close within the next twelve months. Unless challenged by tax authorities, the closure of those statutes of limitation is expected to result in the recognition of uncertain tax positions in the amount of \$0.1 million.

Examination of Tax Returns

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company and its subsidiaries are generally no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2009.

Note 10. LEASE OBLIGATIONS

The Company has entered into non-cancelable operating leases for real property with original lease terms of up to ten years. In addition, the Company leases manufacturing and data processing equipment under operating leases expiring during the next three years.

In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Future minimum lease payments as of December 31, 2013 are as follows (amounts in thousands):

| | |
|------------|----------|
| 2014 | \$2,995 |
| 2015 | 2,882 |
| 2016 | 2,346 |
| 2017 | 2,269 |
| 2018 | 2,098 |
| Thereafter | - |
| | \$12,590 |

Rental expense for 2013 and 2012 for operating leases was \$3.4 million and \$3.3 million, respectively.

Note 11. RELATED PARTY TRANSACTIONS

Kohlberg & Co., L.L.C., whose affiliate holds all 1,131,551 shares of the Company's Convertible Preferred Stock, provides ongoing management oversight and advisory services to the Company. At December 31, 2013 and 2012, the Company owed Kohlberg \$2.8 million and \$2.3 million, respectively, for these services which is recorded in current liabilities in the Consolidated Balance Sheets. The Company incurred expense of \$0.5 million for these services in both 2013 and 2012, which is recorded in selling, general and administrative expenses in the Consolidated Statements of Operations. The Company expects to incur \$0.5 million annually for these services in future years.

41

Table of Contents

Note 12. GEOGRAPHIC INFORMATION

The Company operates businesses in the United States and foreign countries. The operations of businesses within major geographic areas for 2013 and 2012 are summarized as follows (amounts in thousands):

| | United States | Canada | Other | Consolidated |
|---------------------------------|------------------|---------|---------|--------------|
| 2013: | | | | |
| Sales to unaffiliated customers | \$74,526 | \$2,448 | \$1,282 | \$ 78,256 |
| Long-lived assets | \$6,929 | \$33 | \$- | \$ 6,962 |
| Total assets ⁽¹⁾ | \$25,699 | \$1,219 | \$- | \$ 26,918 |
| 2012: | | | | |
| Sales to unaffiliated customers | \$76,265 | \$2,371 | \$1,679 | \$ 80,315 |
| Long-lived assets | \$8,369 | \$33 | \$- | \$ 8,402 |
| Total assets ⁽¹⁾ | \$33,331 | \$986 | \$- | \$ 34,317 |

⁽¹⁾ - Net of Assets Held for Sale.

Net sales for each geographic area include sales to unaffiliated customers located in that area, as reported in the Consolidated Statements of Operations.

Note 13. **COMMITMENTS AND
CONTINGENCIES**

General Environmental Claims

The Company and certain of its current and former direct and indirect corporate predecessors, subsidiaries and divisions are involved in remedial activities at certain present and former locations and have been identified by the United States Environmental Protection Agency (“EPA”), state environmental agencies and private parties as potentially responsible parties (“PRPs”) at a number of hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act (“Superfund”) or equivalent state laws and, as such, may be liable for the cost of cleanup and other remedial activities at these sites. Responsibility for cleanup and other remedial activities at a Superfund site is typically shared among PRPs based on an allocation formula. Under the federal Superfund statute, parties could be held jointly and severally liable, thus subjecting them to potential individual liability for the entire cost of cleanup at the site. Based on its estimate of allocation of liability among PRPs, the probability that other PRPs, many of whom are large, solvent, public companies, will fully pay the costs apportioned to them, currently available information concerning the scope of contamination, estimated remediation costs, estimated legal fees and other factors, the Company has recorded and accrued for environmental liabilities in amounts that it deems reasonable and believes that any liability with respect to these matters in excess of the accruals will not be material. The ultimate costs will depend on a number of factors and the amount currently accrued represents management’s best current estimate on an undiscounted basis of the total costs to be incurred. The Company expects this amount to be substantially paid over the next five to ten years.

Other Claims

There are a number of product liability, asbestos and workers’ compensation claims pending against the Company and its subsidiaries. Many of these claims are proceeding through the litigation process and the final outcome will not be known until a settlement is reached with the claimant or the case is adjudicated. The Company estimates that it can take up to ten years from the date of the injury to reach a final outcome on certain claims. With respect to the product

liability and workers' compensation claims, the Company has provided for its share of expected losses beyond the applicable insurance coverage, including those incurred but not reported to the Company or its insurance providers, which are developed using actuarial techniques. Such accruals are developed using currently available claim information, and represent management's best estimates, including estimated legal fees, on an undiscounted basis. The ultimate cost of any individual claim can vary based upon, among other factors, the nature of the injury, the duration of the disability period, the length of the claim period, the jurisdiction of the claim and the nature of the final outcome.

42

Table of Contents

Although management believes that the actions specified above in this section individually and in the aggregate are not likely to have outcomes that will have a material adverse effect on the Company's financial position, results of operations or cash flow, further costs could be significant and will be recorded as a charge to operations when, and if, current information dictates a change in management's estimates.

Note 14. SUPPLEMENTAL BALANCE SHEET INFORMATION

The following table provides detail regarding other current assets shown on the Consolidated Balance Sheets (amounts in thousands):

| | December 31, | |
|-------------------------------------|--------------|---------|
| | 2013 | 2012 |
| Prepays | \$441 | \$658 |
| Escrow | - | 475 |
| Non-trade miscellaneous receivables | 44 | 15 |
| Note Receivable | 178 | - |
| Other | - | 308 |
| Total | \$663 | \$1,456 |

The following table provides detail regarding other assets shown on the Consolidated Balance Sheets (amounts in thousands):

| | December 31, | |
|--------------------------|--------------|---------|
| | 2013 | 2012 |
| Note receivable | \$525 | \$813 |
| Debt issuance costs, net | 136 | 281 |
| Rabbi trust assets | 482 | 456 |
| Deposits | 126 | 129 |
| Trade credits | 61 | 82 |
| Other | 45 | 74 |
| Total | \$1,375 | \$1,835 |

The following table provides detail regarding accrued expenses shown on the Consolidated Balance Sheets (amounts in thousands):

Table of Contents

| | December 31, | |
|-------------------------------------|--------------|---------|
| | 2013 | 2012 |
| Contingent liabilities | \$3,420 | \$4,024 |
| Advertising and rebates | 2,077 | 2,375 |
| Other | 594 | 637 |
| Severance | - | 362 |
| Commissions | 292 | 317 |
| Pension and postretirement benefits | 144 | 231 |
| Professional services | 173 | 180 |
| Accrued utilities | 84 | 154 |
| Asset retirement obligations | - | 137 |
| Sales tax | 115 | 113 |
| Medical self insurance | 72 | 111 |
| Deferred rent expense | 71 | 71 |
| Accrued SARs | 20 | 33 |
| Property taxes | - | 30 |
| Total | \$7,062 | \$8,775 |

Contingent liabilities consist of accruals for estimated losses associated with environmental issues and the uninsured portion of general and product liability and workers' compensation claims.

The following table provides detail regarding other liabilities shown on the Consolidated Balance Sheets (amounts in thousands):

| | December 31, | |
|-------------------------------------|--------------|---------|
| | 2013 | 2012 |
| Pension and postretirement benefits | \$1,245 | \$3,089 |
| Deferred compensation | 740 | 767 |
| Asset retirement obligations | 675 | 515 |
| Deferred lease | 738 | 746 |
| Accrued restructuring | - | 380 |
| Deferred rent expense | 286 | 357 |
| Accrued income taxes - long-term | 110 | 110 |
| Total | \$3,794 | \$5,964 |

Note 15. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes during the years ended December 31 was as follows (amounts in thousands):

| | December 31, | |
|--------------|--------------|-------|
| | 2013 | 2012 |
| Interest | \$464 | \$523 |
| Income taxes | \$10 | \$28 |

Note 16. SUBSEQUENT EVENTS

On February 19, 2014, the Company acquired all of the equity interests of Ft. Wayne Holdings, Inc. ("FTW"), the parent company of Ft. Wayne Plastics, Inc. ("FWP"), a leading manufacturer of medium- to large- sized molded plastic components, specializing in low pressure, multi-nozzle structural plastic and gas assist solutions, for \$11.5 million in

cash, subject to certain pre-closing and post-closing purchase price adjustments. The acquisition of FWP's premier manufacturing capabilities and dedication to customer service are highly complementary with the Company.

44

Table of Contents

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of February 19, 2014 are set forth below:

| | |
|--------------------------------|----------|
| Current assets | \$3,041 |
| Long-term assets | 4,215 |
| Identifiable intangible assets | 1,000 |
| Total liabilities assumed | (892) |
| Total identifiable net assets | 7,364 |
| Goodwill | 3,595 |
| Net assets acquired | \$10,959 |

The amounts shown above may change in the near term as management continues to assess the fair value of acquired assets and liabilities and evaluate the income tax implications of this business combination.

During 2013, the Company incurred \$0.2 million in costs related to the acquisition of FWP. These costs included fees for legal, accounting, valuation and other professional fees. These costs have been included within general and administrative expenses.

The cash used for this acquisition was funded primarily through a new credit agreement (the “BMO Credit Agreement”) entered into on February 19, 2014 between the Company and BMO Harris Bank N.A. The BMO Credit Agreement provides the Company a \$27.0 million revolving credit facility, including a \$3.0 million sub-limit for letters of credit. The proceeds of the Company’s initial borrowing under the BMO Credit Agreement were used to repay the PB Credit Facility (as defined in Note 4), finance the acquisition of FTW (as defined above), and pay certain fees and expenses related to the negotiation and consummation of the credit facility and the acquisition. All extensions of credit under the BMO Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company.

The BMO Credit Agreement has an expiration date of February 17, 2017 and its borrowing base is determined by eligible inventory, accounts receivable, machinery and equipment and owned real estate. The borrowing base under the BMO Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit.

Borrowings under the BMO Credit Agreement bear interest at a per annum rate equal to, at the Borrower’s option, (a) the Base Rate plus applicable Base Rate Margin, which varies from 0.50% to 1.00% based on average excess availability, or (b) reserve adjusted Eurodollar Rate plus the applicable Eurodollar Rate Margin, which varies from 1.50% to 2.00% based on average excess availability. The Base Rate is the greatest of (i) BMO Harris’ prime commercial rate as in effect on such day, (ii) the sum of the Fed Funds rate for such day plus 0.5%, and (iii) the Eurodollar Rate for one month plus 1.50%. The Eurodollar Rate is the British Bankers Association LIBOR Rate, as published by Reuters (or other commercially available source) with a term equivalent to the applicable one, two, three or six month interest period. An unused commitment fee of 25 basis points per annum is payable quarterly on the average unused amount of the BMO Credit Agreement. The BMO Credit Agreement includes financial covenants regarding fixed charge coverage ratio, maximum annual capital expenditures, minimum consolidated EBITDA at March 28, 2014 and minimum availability through June 2014.

The BMO Credit Agreement requires a lockbox agreement which provides receipts (subject to certain exceptions) to be swept daily to reduce borrowings outstanding. This provision in the BMO Credit Agreement causes the BMO Credit Agreement to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The Company does not expect to repay, or be required to repay, within one year, the balance of the BMO Credit Agreement, which will be classified as a current liability. The BMO Credit Agreement does not expire or have a maturity date within one year, but rather has a final expiration date of February 17, 2017.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

45

Table of Contents

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the Securities and Exchange Commission (“SEC”) is reported within the time periods specified in the SEC’s rules, regulations and related forms, and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Exchange Act) as of the end of the period of our report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2013, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the company to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the directors of the Company is incorporated herein by reference to the information set forth under the section entitled “Election of Directors” in the Proxy Statement of Katy Industries, Inc. for its 2014 annual meeting of shareholders (the “2013 Proxy Statement”), which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after December 31, 2013.

Information regarding executive officers of the Company is incorporated herein by reference to the information set forth under the section entitled “Information Concerning Directors and Executive Officers” in the 2013 Proxy Statement.

Information regarding compliance with Section 16 of the Securities Exchange Act of 1934 is incorporated herein by reference to the information set forth under the Section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2013 Proxy Statement.

Information regarding the Company’s Code of Ethics is incorporated herein by reference to the information set forth under the Section entitled “Code of Ethics” in the 2013 Proxy Statement.

46

Table of ContentsItem 11. EXECUTIVE COMPENSATION

Information regarding compensation of executive officers is incorporated herein by reference to the information set forth under the section entitled “Executive Compensation” in the 2013 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding beneficial ownership of stock by certain beneficial owners and by management of the Company is incorporated by reference to the information set forth under the section “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” in the 2013 Proxy Statement.

Equity Compensation Plan Information

The following table represents information as of December 31, 2013 with respect to equity compensation plans under which shares of the Company’s common stock are authorized for issuance:

| Plan Category | Number of Securities to Be Issued on Exercise of Outstanding Option, Warrants and Rights | Weighted-average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuances Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|--|--|---|--|
| | (a) | (b) | (c) |
| Equity Compensation Plans Approved by Stockholders | 12,000 | \$ 4.80 | 0 |
| Equity Compensation Plans Not Approved by Stockholders | 201,000 | \$ 4.42 | 583,513 |
| Total | 213,000 | | 583,513 |

Equity Compensation Plans Not Approved by Stockholders

On November 21, 2002, the Board of Directors approved the 2002 Stock Appreciation Rights Plan (the “2002 SAR Plan”), authorizing the issuance of up to 1,000,000 SARs. Vesting of the SARs occurs ratably over three years from the date of issue. The 2002 SAR Plan provides limitations on redemption by holders, specifying that no more than 50% of the cumulative number of vested SARs held by an employee could be exercised in any one calendar year. The SARs expire ten years from the date of issue. In 2013 and 2012, no SARs were granted to employees. In 2013 and 2012, 2,000 SARs each were granted to each of the directors with a Stand-Alone Stock Appreciation Rights Agreement. These SARs vest immediately and have an exercise price of \$0.95 and \$0.53, respectively. At December 31, 2013, Katy had 201,000 SARs outstanding at a weighted average exercise price of \$4.42. The 2002 SAR Plan also provides that in the event of a Change in Control of the Company, all outstanding SARs may become fully vested. In accordance with the 2002 SAR Plan, a “Change in Control” is deemed to have occurred upon any of the

following events: 1) a sale of 100 percent of the Company's outstanding capital stock, as may be outstanding from time to time; 2) a sale of all or substantially all of the Company's operating subsidiaries or assets; or 3) a transaction or series of transactions in which any third party acquires an equity ownership in the Company greater than that held by KKTY Holding Company, L.L.C. and in which Kohlberg relinquishes its right to nominate a majority of the candidates for election to the Board of Directors.

47

Table of Contents

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions with management is incorporated herein by reference to the information set forth under the section entitled “Executive Compensation” in the 2013 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accountant fees and services is incorporated herein by reference to the information set forth under the section entitled “Proposal 2 – Ratification of the Independent Public Auditors” in the 2013 Proxy Statement.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following financial statements of the Company are set forth in Part II, Item 8, of this Form 10-K:

- Consolidated Balance Sheets as of December 31, 2013 and 2012
- Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013 and 2012
- Consolidated Statements of Stockholders’ (Deficit) Equity for the years ended December 31, 2013 and 2012
- Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012
- Notes to Consolidated Financial Statements

2. Exhibits

The exhibits filed with this report are listed on the “Exhibit Index.”

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2014 KATY INDUSTRIES,
INC.
Registrant

/S/ David J. Feldman
David J. Feldman
President and Chief Executive Officer

/S/ James W. Shaffer
James W. Shaffer
Vice President, Treasurer and Chief Financial
Officer
49

Table of Contents

POWER OF ATTORNEY

Each person signing below appoints David J. Feldman and James W. Shaffer, or either of them, his attorneys-in-fact for him in any and all capacities, with power of substitution, to sign any amendments to this report, and to file the same with any exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of this 31st day of March, 2014.

| <u>Signature</u> | <u>Title</u> |
|---|---|
| <u>/S/ William F. Andrews</u> William F. Andrews | Chairman of the Board and Director |
| <u>/S/ David J. Feldman</u> David J. Feldman | President, Chief Executive Officer and Director (Principal Executive Officer) |
| <u>/S/ James W. Shaffer</u> James W. Shaffer | Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer) |
| <u>/S/ Christopher Anderson</u> Christopher Anderson | Director |
| <u>/S/ Daniel B. Carroll</u> Daniel B. Carroll | Director |
| <u>/S/ Wallace E. Carroll, Jr.</u> Wallace E. Carroll, Jr. | Director |
| <u>/S/ Samuel P. Frieder</u> Samuel P. Frieder | Director |
| <u>/S/ Shant Mardirossian</u> Shant Mardirossian | Director |

Table of Contents

KATY INDUSTRIES, INC.

EXHIBIT INDEX

DECEMBER 31, 2013

Exhibit

Number Exhibit TitlePage

| | | |
|-------|--|---|
| 2 | Preferred Stock Purchase and Recapitalization Agreement, dated as of June 2, 2001 (incorporated by reference to Annex B to the Company's Proxy Statement on Schedule 14A filed June 8, 2001). | * |
| 3.1 | The Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K on July 13, 2001). | * |
| 3.2 | The By-laws of the Company, as amended (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed May 15, 2001). | * |
| 10.1 | Amended and Restated Katy Industries, Inc. 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.20 of the Company's Quarterly Report on Form 10-Q filed August 9, 2006). | * |
| 10.2 | Katy Industries, Inc. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 filed June 21, 1995). | * |
| 10.3 | Katy Industries, Inc. Supplemental Retirement and Deferral Plan effective as of June 1, 1995 (incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K filed April 1, 1996). | * |
| 10.4 | Katy Industries, Inc. Directors' Deferred Compensation Plan effective as of June 1, 1995 (incorporated by reference to Exhibit 10.5 to Company's Annual Report on Form 10-K filed April 1, 1996). | * |
| 10.5 | Employment Agreement dated as of April 21, 2008 between David J. Feldman and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed May 13, 2008). | * |
| 10.6 | Katy Industries, Inc. 2008 Chief Executive Officer's Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed May 13, 2008). | * |
| 10.7 | CFO Employment Offer Letter dated as of October 27, 2008 between James W. Shaffer and the Company (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed October 27, 2008). | * |
| 10.8 | Amendment to CFO Employment Offer Letter dated as of January 18, 2011 between James W. Shaffer and the Company (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K filed March 31, 2011). | * |
| 10.9 | Katy Industries, Inc. 2008 Chief Financial Officer's Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K dated March 31, 2009). | * |
| 10.10 | Katy Industries, Inc. 2002 Stock Appreciation Rights Plan, dated November 21, 2002 (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K dated April 15, 2003). | * |

Edgar Filing: KATY INDUSTRIES INC - Form 10-K

| | | |
|--------------|---|----|
| 10.18 | Loan and Security Agreement dated September 30, 2011 among Continental Commercial Products, LLC, Glit/Gemtex, Ltd., 3254018 Nova Scotia Limited, Katy Industries, Inc. and The PrivateBank and Trust Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 11, 2011). | * |
| 10.19 | Asset Purchase Agreement dated August 23, 2011 by and between Continental Commercial Products, LLC, Katy Industries, Inc., and DISCO Acquisition Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 11, 2011). | * |
| 10.20 | Stand-Alone Stock Appreciation Rights Agreement (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed September 6, 2006). | * |
| <u>10.22</u> | Director Compensation Arrangements | 58 |
| 10.23 | Consent and First Amendment to Loan and Security Agreement dated May 31, 2012 among Continental Commercial Products, LLC, Glit/Gemtex, Ltd., 3254018 Nova Scotia Limited, Katy Industries, Inc. and The PrivateBank and Trust Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 6, 2012). | * |
| 10.24 | Stock Purchase Agreement dated January 24, 2014 by and between Continental Commercial Products, LLC, and FTW Holdings, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 30, 2014). | * |
| 10.25 | Credit and Security Agreement dated January 24, 2014 among Katy Industries, Inc., Continental Commercial Products LLC, 2155735 Ontario Inc., CCP Canada, Inc. and BMO Harris Bank N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed February 25, 2014). | * |
| <u>21</u> | Subsidiaries of Registrant | 59 |
| <u>23</u> | Consent of Independent Registered Public Accounting Firm | 60 |
| 51 | | |

Table of Contents

| | | |
|-------------|--|-----|
| <u>31.1</u> | CEO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | 61 |
| <u>31.2</u> | CFO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | 62 |
| <u>32.1</u> | CEO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 63# |
| <u>32.2</u> | CFO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 64# |
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-5: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity and Comprehensive Loss, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. | |

*Indicates incorporated by reference.

These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and are not to be # incorporated by reference into any filing of Katy Industries, Inc. whether made before or after the date hereof, regardless of any general incorporation language in such filing.