

KATY INDUSTRIES INC
Form 10-Q
November 09, 2015

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

FORM 10-Q

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

For the quarterly period ended: September 25, 2015

Or

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

For the transition period from _____ to _____

Commission File Number 001-05558

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

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 Web site, 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 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at October 23, 2015
Common Stock, \$1 Par Value	7,951,176 Shares

KATY INDUSTRIES, INC.
FORM 10-Q
September 25, 2015

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IndexPART I FINANCIAL INFORMATIONItem 1. Financial Statements

KATY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 AS OF SEPTEMBER 25, 2015 (UNAUDITED) AND DECEMBER 31, 2014
 (Amounts in Thousands)

ASSETS

	September 25, 2015	December 31, 2014
CURRENT ASSETS:		
Cash	\$ 55	\$ 66
Accounts receivable, net	12,296	10,840
Inventories, net	20,182	15,881
Other current assets	2,290	659
Total current assets	34,823	27,446
OTHER ASSETS:		
Goodwill	8,377	2,556
Intangibles, net	21,153	3,909
Other	4,145	1,839
Total other assets	33,675	8,304
PROPERTY AND EQUIPMENT		
Land and improvements	535	535
Buildings and improvements	7,849	6,175
Machinery and equipment	56,337	52,711
	64,721	59,421
Less - Accumulated depreciation	(50,771)	(49,263)
Property and equipment, net	13,950	10,158
Total assets	\$ 82,448	\$ 45,908

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 AS OF SEPTEMBER 25, 2015 (UNAUDITED) AND DECEMBER 31, 2014
 (Amounts in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY

	September 25, 2015	December 31, 2014
CURRENT LIABILITIES:		
Accounts payable	\$17,127	\$7,327
Book overdraft	584	699
Accrued compensation	1,270	1,457
Accrued expenses	7,956	7,093
Payable to related party	4,131	3,650
Deferred revenue	170	186
Current maturities of long term debt	600	-
Revolving credit agreement	26,342	21,967
Total current liabilities	58,180	42,379
DEFERRED REVENUE	-	130
LONG TERM DEBT	23,862	-
OTHER LIABILITIES	5,696	4,090
Total liabilities	87,738	46,599
COMMITMENTS AND CONTINGENCIES (Note 9)		
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	(1,722)	(1,544)
Accumulated deficit	(127,319)	(122,898)
Treasury stock, at cost, 1,871,128 shares	(21,437)	(21,437)
Total stockholders' (deficit) equity	(5,290)	(691)
Total liabilities and stockholders' (deficit) equity	\$82,448	\$45,908

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 25, 2015 AND SEPTEMBER 26, 2014

(Amounts in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	25,	26,	25,	26,
	2015	2014	2015	2014
Net sales	\$31,048	\$ 26,543	\$83,702	\$ 72,077
Cost of goods sold	26,273	21,549	70,530	60,020
Gross profit	4,775	4,994	13,172	12,057
Selling, general and administrative expenses	3,518	3,451	11,144	10,633
Severance, restructuring and related charges	1,777	-	3,914	-
Operating (loss) income	(520)	1,543	(1,886)	1,424
Interest expense	(1,233)	(229)	(2,733)	(786)
Other, net	35	40	100	117
(Loss) income before income tax benefit (expense)	(1,718)	1,354	(4,519)	755
Income tax benefit (expense)	113	(4)	98	2,303
Net (loss) income	\$(1,605)	\$ 1,350	\$(4,421)	\$ 3,058
Net (loss) income	\$(1,605)	\$ 1,350	\$(4,421)	\$ 3,058
Other comprehensive (loss) income				
Foreign currency translation	(94)	(43)	(178)	(75)
Total comprehensive (loss) income	\$(1,699)	\$ 1,307	\$(4,599)	\$ 2,983
Basic (loss) earnings per share	\$(0.20)	\$ 0.17	\$(0.56)	\$ 0.38
Diluted (loss) earnings per share	\$(0.20)	\$ 0.05	\$(0.56)	\$ 0.11
Weighted average common shares outstanding:				
Basic	7,951	7,951	7,951	7,951
Diluted	7,951	26,810	7,951	26,810

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 25, 2015 AND SEPTEMBER 26, 2014

(Amounts in Thousands)

(Unaudited)

	September 25, 2015	September 26, 2014
Cash flows from operating activities:		
Net (loss) income	\$ (4,421)	\$ 3,058
Depreciation	2,026	1,547
Amortization of intangible assets	545	108
Amortization of debt issuance costs	458	272
Stock-based compensation	76	50
Payment In Kind (PIK) interest expense	462	-
Deferred income taxes	-	(2,318)
	(854)	2,717
Changes in operating assets and liabilities:		
Accounts receivable	(668)	(2,985)
Inventories	(2,842)	(6,395)
Other assets	(1,762)	(65)
Accounts payable	6,487	2,912
Accrued expenses	(1,367)	843
Payable to related party	481	375
Deferred revenue	(146)	(147)
Other	1,358	(275)
	1,541	(5,737)
Net cash provided by (used in) continuing operations	687	(3,020)
Net cash provided by discontinued operations	-	74
Net cash provided by (used in) operating activities	687	(2,946)
Cash flows from investing activities:		
Payment for acquisition, net of cash received	(23,855)	(10,774)
Capital expenditures	(2,167)	(642)
Net cash used in investing activities	(26,022)	(11,416)
Cash flows from financing activities:		
Net borrowings on revolving credit facility	4,375	14,337
Proceeds from term loan facility	24,000	-
Loan from related party	-	400
(Decrease) increase in book overdraft	(115)	97
Direct costs associated with debt facilities	(2,627)	(672)
Net cash provided by financing activities	25,633	14,162
Effect of exchange rate changes on cash	(309)	(109)
Net decrease in cash	(11)	(309)
Cash, beginning of period	66	708

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Cash, end of period	\$ 55	\$ 399
Supplemental cash flow disclosure		
Interest paid	\$ 1,637	\$ 484
Supplemental information of non-cash investing and financing activity		
Accrued contingent earnout payment	\$ 2,000	\$ -
Capital expenditures included in accounts payable	\$ 1,159	\$ -

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Basis of Presentation – The condensed 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. The Condensed Consolidated Balance Sheet at September 25, 2015 and the related Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended September 25, 2015 and September 26, 2014 and Cash Flows for the nine months ended September 25, 2015 and September 26, 2014 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods. Interim results may not be indicative of results to be realized for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management’s discussion and analysis of financial condition and results of operations, contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Condensed Consolidated Balance Sheet as of December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (“GAAP”).

Fiscal Year – The Company operates and reports using a 4-4-5 fiscal year which always ends on December 31. As a result, December and January do not typically consist of five and four weeks, respectively. The three months ended September 25, 2015 and September 26, 2014 consisted of 63 shipping days. The nine months ended September 25, 2015 and September 26, 2014 consisted of 186 and 187 shipping days, respectively.

Use of Estimates – The preparation of financial statements in conformity with GAAP 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.

Inventories – The components of inventories are as follows (amounts in thousands):

	September	December
	25,	31,
	2015	2014
Raw materials	\$ 10,285	\$ 6,457
Finished goods	14,656	14,714
Inventory reserves	(705)	(618)
LIFO reserve	(4,054)	(4,672)
	\$20,182	\$ 15,881

At September 25, 2015 and December 31, 2014, approximately 71% and 78%, respectively, of Katy’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 \$4.1 million and \$4.7 million at September 25, 2015 and December 31, 2014, respectively.

Share-Based Payment – Compensation cost recognized during the three and nine months ended September 25, 2015 and September 26, 2014 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 September 25, 2015 and September 26, 2014 based on the September 25, 2015 and September 26, 2014 fair values, respectively. 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.

Compensation expense is included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations. The components of compensation expense are as follows (amounts in thousands):

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	Three Months Ended September 25, 26, 2015 2014		Nine Months Ended September 25, 26, 2015 2014	
Stock appreciation right expense	\$ 13	\$ 15	\$ 76	\$ 50

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 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 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. There were no stock options granted during the three and nine months ended September 25, 2015 and September 26, 2014.

The fair value of SARs, a liability award, was estimated at September 25, 2015 and September 26, 2014 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 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. The assumptions for expected term, volatility and risk-free rate are presented in the table below:

	September 25, 2015	September 26, 2014
Expected term (years)	0.9 - 4.8	1.9 - 4.8
Volatility	133.1% - 313.7%	244.2% - 353.4%
Risk-free interest rate	0.3% - 1.4%	0.6% - 1.7%

Accumulated Comprehensive Loss – The components of accumulated other comprehensive loss are foreign currency translation adjustments and pension and other postretirement benefits adjustments. The balance of foreign currency translation adjustments was \$0.9 million and \$0.7 million at September 25, 2015 and December 31, 2014, respectively. The balance of pension and other postretirement benefits adjustments was \$0.8 million at September 25, 2015 and December 31, 2014.

Change in Estimate – On February 28, 2015 the Company opted out of the lease at the Bridgeton, Missouri facility (see Note 11) and it was determined leasehold improvements and various equipment would not be transferred to the Jefferson City, Missouri facility. Accordingly, the Company reduced its estimate of the useful life for the leasehold improvements and various equipment to December 31, 2015. The net book value of the leasehold improvements and equipment was \$1.1 million. As a result of the change in accounting estimate, the Company recorded a charge for accelerated depreciation of approximately \$259,000 and \$618,000 (\$0.03 and \$0.08 per basic and diluted share) for the three and nine months ended September 25, 2015, respectively.

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.

Note 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU" or "Update") No. 2014-09, "Revenue from Contracts with Customers." This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. On July 9, 2015 the FASB voted to defer the effective date of this standard by one year to December 15, 2017 for the interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU. We are currently evaluating which transition approach to use and the full impact this ASU will have on our future financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, to communicate amendments to FASB Account Standards Codification Subtopic 205-40, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity’s ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. Management will have to make certain disclosures if it concludes that substantial doubt exists or when it plans to alleviate substantial doubt about the entity’s ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016 and for interim reporting periods starting in the first quarter of 2017. Early adoption is permitted. We currently believe there will be no impact on our financial statement disclosures.

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” This ASU requires companies to present debt issuance costs as a direct deduction from the carrying value of that debt liability. ASU 2015-03 does not impact the recognition and measurement guidance for debt issuance costs. This ASU is effective for annual reporting periods beginning after December 15, 2015 and early adoption is permitted. Accordingly, we will adopt this ASU on January 1, 2016. Companies are required to use a retrospective approach and we are currently evaluating the impact to our future financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330),” authoritative guidance to simplify the subsequent measurement of inventory. Under this new standard, an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments in this guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact to our future financial statements.

In September 2015, FASB issued ASU 2015-16, “Business Combinations (Topic 805),” which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The acquirer still must disclose the amounts and reasons for adjustments to the provisional amounts. The acquirer also must disclose, by line item, the amount of the adjustment reflected in the current-period income statement that would have been recognized in previous periods if the adjustment to provisional amounts had been recognized as of the acquisition date. Alternatively, an acquirer may present those amounts separately on the face of the income statement. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2015, including interim periods with those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact to our future financial statements.

Note 3. (LOSS) EARNINGS PER SHARE

The consolidated financial statements include basic and diluted (loss) earnings 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, owned by Kohlberg & Co. LLC (see Note 8), accounted for using the “if converted” basis, which assumes their conversion to common stock at a ratio of 16.6:1. The basic and diluted earnings per share (“EPS”) calculations are as follows:

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	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net (loss) income	\$(1,605)	\$ 1,350	\$(4,421)	\$ 3,058
Average common shares outstanding - Basic	7,951	7,951	7,951	7,951
Dilutive effect of convertible preferred stock	-	18,859	-	18,859
Average common shares outstanding - Diluted	7,951	26,810	7,951	26,810
Per share amount - Basic:	\$(0.20) \$ 0.17		\$(0.56) \$ 0.38	
Per share amount - Diluted:	\$(0.20) \$ 0.05		\$(0.56) \$ 0.11	

As of September 25, 2015, all options had expired. As of September 26, 2014, no options were in the money and 6,000 options were out of the money. At September 25, 2015 and September 26, 2014, 1,131,551 convertible preferred shares were outstanding, which are in total, convertible into 18,859,183 shares of the Company's common stock. Convertible preferred shares were not included in the calculation of diluted (loss) earnings per share for the three and nine months ended September 25, 2015 because of their anti-dilutive impact as a result of the Company's net loss position.

Note 4. INDEBTEDNESS

Long-term debt consists of the following (amounts in thousands):

	September 25, 2015	December 31, 2014
Revolving loans payable under the BMO Credit Agreement	\$ 26,342	\$ 21,967
Second Lien term loan payable under the VPM Credit Agreement	24,462	-
Total debt	50,804	21,967
Less revolving loans, classified as current	(26,342)	(21,967)
Less current maturities	(600)	-
Long-term debt	\$ 23,862	\$ -

Aggregate remaining scheduled maturities of the Term Loan as of September 25, 2015 are as follows (amounts in thousands):

2016	\$600
2017	2,400
2018	2,400
2019	19,062
Total	\$24,462

On February 19, 2014, the Company and BMO Harris Bank N.A. entered into a Credit and Security Agreement (the "BMO Credit Agreement"), which provided 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 PrivateBank Loan and Security Agreement (the "PB Loan Agreement"), finance the acquisition of FTW (as defined in Note 10), and pay certain fees and expenses related to the negotiation and consummation of the BMO Credit Agreement. 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.

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First Lien Credit Agreement

On April 7, 2015, in conjunction with the acquisition described below, Katy Industries, Inc. (the “Company”), Continental Commercial Products, LLC, a Delaware limited liability company, 2155735 Ontario Inc., an Ontario corporation, CCP Canada Inc., an Ontario corporation, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, wholly owned direct or indirect subsidiaries of the Company (the foregoing, including the Company, the “Borrowers”), and BMO Harris Bank N.A., as lender (“BMO”) entered into Amendment No. 1 to Credit and Security Agreement, dated April 7, 2015 (the “Closing Date”), among the Borrowers and BMO (“Amendment No. 1”) to amend that certain Credit and Security Agreement, dated February 19, 2014 (the “Original BMO Credit Agreement”), among the Borrowers and BMO (the Original Credit Agreement, as amended by Amendment No. 1, the “BMO Credit Agreement”) and to obtain the consent of BMO to the acquisition described below.

Pursuant to Amendment No. 1, the revolving credit facility under the Original BMO Credit Agreement was increased from an amount not to exceed \$27.0 million to an amount not to exceed \$33.0 million. The revolving credit facility under the BMO Credit Agreement continues to include a \$3.0 million sub-limit for letters of credit. The proceeds advanced under the BMO Credit Agreement on the Closing Date were used to pay certain fees and expenses related to the negotiation and consummation of Amendment No. 1 and the acquisition of our Tiffin, Ohio manufacturing facility (as described in Note 10). Subject to the terms of an Intercreditor and Subordination Agreement, dated as of April 7, 2015 (the “Intercreditor Agreement”), between BMO and the SL Agent (as defined below), 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 Borrowers.

The Original BMO Credit Agreement was further amended pursuant to Amendment No. 1 to extend the maturity date of the credit facility from February 17, 2017 to April 7, 2018. The borrowing base continues to be determined by eligible inventory, accounts receivable, machinery and equipment and owned real estate amounting to \$32.6 million at September 25, 2015. The borrowing base under the BMO Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company’s largest letters of credit relate to its casualty insurance programs. Total outstanding letters of credit were \$1.1 million at September 25, 2015 and December 31, 2014.

Borrowings under the BMO Credit Agreement continue to 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 under the BMO Credit Agreement.

Amendment No. 1 amended the consolidated fixed charge coverage ratio under the Original BMO Credit Agreement and added a maximum annual capital expenditures, minimum consolidated EBITDA, minimum availability and a leverage ratio covenant. Amendment No. 1 also amended the Original BMO Credit Agreement to permit the secured second lien credit facility described below.

The BMO Credit Agreement continues to require 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 maturity date of April 7, 2018.

Second Lien Credit Facility

On April 7, 2015, the Company, Continental Commercial Products, LLC, a Delaware limited liability company, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, as borrowers (the "SL Borrowers") and 2155735 Ontario Inc., an Ontario corporation, and CCP Canada Inc., an Ontario corporation, as guarantors (the "Guarantors," together with the SL Borrowers, the "SL Obligors") entered into a Second Lien Credit and Security Agreement, dated as of April 7, 2015, among the SL Obligors, Victory Park Management, LLC, as Agent (the "SL Agent"), and the lenders party thereto (the "Second Lien Credit Agreement").

The Second Lien Credit Agreement provides the SL Borrowers with a \$24.0 million term loan. The proceeds of the term loan were used to pay certain fees and expenses related to the negotiation and consummation of the credit facility and the acquisition of our Tiffin, Ohio manufacturing facility (see note 10). Subject to the terms of the Intercreditor Agreement, all extensions of credit under the Second Lien Credit Agreement are collateralized by a second priority security interest in and lien upon substantially all present and future assets and properties of the SL Obligors.

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The term loan under the Second Lien Credit Agreement bears interest (i) at a cash interest rate of the LIBOR (One Month) Rate then in effect plus 9.5% per annum and (ii) a Payment in Kind "PIK" interest rate equal to 4.00% per annum. The maturity date of the credit facility under the Second Lien Credit Agreement is April 6, 2019.

Pursuant to the Second Lien Credit Agreement, the SL Borrowers are to make quarterly amortization payments and annual excess cash flow prepayments equal to 25% of annual excess cash flow as defined in the agreement. The Second Lien Credit Agreement includes the following financial covenants: a consolidated fixed charge coverage ratio, a maximum annual capital expenditures, a minimum consolidated EBITDA, a minimum availability under the BMO Credit Agreement and a leverage ratio.

All of the debt under the BMO Credit Agreement and Second Lien Credit Facility are re-priced to current rates at frequent intervals. Therefore, its fair value approximates their carrying value at September 25, 2015. For the three and nine months ended September 25, 2015, the Company had amortization of debt issuance costs, included within interest expense, of \$180,000 and \$458,000, respectively. For the three and nine months ended September 26, 2014, the Company had amortization of debt issuance costs, included within interest expense, of \$56,000 and \$272,000, respectively. Included in amortization of debt issuance costs for the nine months ended September 26, 2014 is approximately \$109,000 of debt issuance costs written off due to the extinguishment of the PB Loan Agreement. The Company was in compliance with the financial covenants at September 25, 2015.

Note 5. RETIREMENT BENEFIT 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.

Information regarding the Company's net periodic benefit cost for pension and other postretirement benefit plans for the three and nine months ended September 25, 2015 and September 26, 2014 is as follows (amounts in thousands):

	Pension Benefits			
	Three Months		Nine Months	
	Ended		Ended	
	September	September	September	September
	25,	26,	25,	26,
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Interest cost	\$15	\$ 15	\$44	\$ 45
Expected return on plan assets	(16)	(15)	(49)	(47)
Amortization of net loss	13	9	37	28
Net periodic benefit cost	\$12	\$ 9	\$32	\$ 26
	Other Benefits			
	Three Months		Nine Months	
	Ended		Ended	
	September	September	September	September
	25,	26,	25,	26,
	2015	2014	2015	2014

Components of net periodic benefit cost:

Interest cost	\$12	\$	10		\$37	\$	30
Amortization of net loss	8		(4)	25	(13)
Net periodic benefit cost	\$20	\$	6		\$62	\$	17

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During the three and nine months ended September 25, 2015, the Company made contributions to the pension plans of \$18,000 and \$54,000, respectively. The Company expects to contribute an additional \$18,000 to the pension plans throughout the remainder of 2015. 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 inputs to the valuation which include quoted prices for similar assets in active markets that are observable either directly or indirectly (Level 2 inputs per the fair value hierarchy).

Note 6. 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. 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.

The following table summarizes stock option activity under each of the Company's applicable plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	6,000	\$ 3.69		
Granted	-	\$ -		
Exercised	-	\$ -		
Expired	6,000	\$ 3.69		
Cancelled	-	\$ -		
Outstanding at September 25, 2015	-	\$ -	0.0 years	\$ -
Vested and Exercisable at September 25, 2015	-	\$ -	0.0 years	\$ -

The following table summarizes SARs activity under each of the Company's applicable plans:

	SARs
Non-Vested at December 31, 2014	-
Granted	4,000
Vested	(4,000)
Cancelled	-
Non-Vested at September 25, 2015	-
Total Outstanding at September 25, 2015	38,000

At September 25, 2015 and December 31, 2014, the aggregate liability related to SARs was \$122,000 and \$47,000, respectively, and is included in accrued expenses in the Condensed Consolidated Balance Sheets.

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Note 7. INCOME TAXES

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 2010.

As a result of the acquisition of Ft. Wayne Holdings Inc. (“FTW”), the Company recorded deferred tax liabilities of \$2.4 million which reduced its net deferred tax assets. The reduction in deferred tax assets caused a release of a valuation allowance of \$2.3 million in the nine months ended September 26, 2014.

As of September 25, 2015 the Company had deferred tax assets, net of deferred tax liabilities, of \$80.5 million subject to a valuation allowance of \$80.6 million. As of December 31, 2014 the Company had deferred tax assets, net of deferred tax liabilities, of \$78.9 million subject to a valuation allowance of \$79.0 million. Domestic net operating loss (“NOL”) carry forwards comprised \$63.7 million and \$62.1 million of the deferred tax assets as of September 25, 2015 and December 31, 2014, respectively. Katy’s history of operating losses in many of its taxing jurisdictions provides significant negative evidence with respect to the Company’s ability to generate future taxable income. 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

During the three and nine months ended September 25, 2015, we recorded a reduction in the tax provision for income taxes of \$0.1 million due to the reversal of uncertain tax position as a result of the expiration of statutes of limitations.

Note 8. 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 September 25, 2015 and December 31, 2014, the Company owed Kohlberg \$3.6 million and \$3.3 million, respectively, for these services, which is recorded in current liabilities on the Condensed Consolidated Balance Sheets. The Company incurs expense of \$0.5 million per year for these services. For each of the three and nine months ended September 25, 2015 and September 26, 2014, \$0.1 million and \$0.4 million, respectively, is recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for these services.

In February 2014, loans of \$0.1 million each were received from two directors of the Company, and a loan of \$0.2 million was received from Kohlberg & Co. L.L.C., In connection with these loans, the Company entered into subordinated promissory notes with these individuals and Kohlberg & Co. L.L.C., respectively. These notes were used to finance the acquisition of FTW and are set to mature on December 31, 2019. The notes accrue interest at a rate of 15% per year, which will be paid by capitalizing such interest and adding such capitalized interest to the principal amount of the subordinated notes.

Note 9. 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.

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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, asbestos 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.

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 10. BUSINESS ACQUISITIONS

On February 19, 2014, the Company acquired all of the equity interests of 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 \$11.0 million in cash, less \$200,000 in subsequent working capital adjustments. The acquisition of FWP's premiere manufacturing capabilities and dedication to customer service are highly complementary with the Company.

The accompanying consolidated statements of income for the three and nine months ended September 26, 2014, do not include any revenues or expenses related to the acquisition prior to the closing date. The following unaudited pro forma consolidated financial information is presented as if the FTW acquisition had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisition had actually occurred during those periods, or the results that may be obtained in the future as a result of the acquisition.

	Three months ended September 26, 2014	Nine Months Ended September 26, 2014
Pro Forma (unaudited) Net Sales	\$ 26,543	\$ 73,606
Gross profit	4,994	12,176
Net income	1,351	3,058
Average common shares outstanding - Basic	7,951	7,951
Dilutive effect of convertible preferred stock	18,859	18,859
Average common shares outstanding - Diluted	26,810	26,810

Basic earnings per share	\$ 0.17	\$ 0.38
Diluted earnings per share	\$ 0.05	\$ 0.11

On April 7, 2015, Continental Commercial Products, LLC, a Delaware limited liability company (“CCP”) and wholly owned subsidiary of Katy Industries, Inc. (the “Company”), completed the acquisition of substantially all of the assets and business operations related to the plastics shelving and cabinet business of Centrex Plastics, LLC, an Ohio limited liability company (“Centrex”) and T.R. Plastics, LLC, an Ohio limited liability company (“TR Plastics”) for \$23.9 million in cash at closing, plus certain post-closing earnout payments of not less than \$2.0 million over three years, as described in the Asset Purchase Agreement dated April 7, 2015 (the “Purchase Agreement”) by and between CCP, Centrex, TR Plastics, and Terrence L. Reinhart, the majority member of Centrex and the sole member of TR Plastics. The acquisition of the Tiffin, Ohio manufacturing facility brings a breadth of shelving and storage cabinet solutions to the Katy consumer storage product line which we believe are highly complementary to our current products.

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The Company recorded the tangible and intangible assets acquired and liabilities assumed at their estimated fair values as of the date of the acquisition as outlined in the table below. As of the filing date of this Form 10-Q, the Company is still finalizing the allocation of the purchase price, primarily related to goodwill and intangibles.

Accounts receivable	\$757
Inventory	1,399
Property and equipment	2,317
Intangible assets	17,789
Goodwill	5,821
Total assets acquired	28,083
Accounts payable	2,162
Accrued expenses	66
Total liabilities assumed	2,228
Net assets acquired	\$25,855

The amounts in the above table vary from those previously reported in the prior Form 10-Q due to new information that became available to management in the three months ended September 25, 2015, which resulted in an additional \$6.0 million being allocated to customer lists, with the offset to goodwill.

The accompanying consolidated statements of income for the three and nine months ended September 25, 2015 and September 26, 2014, do not include any revenues or expenses related to the acquisition prior to the closing date. The following unaudited pro forma consolidated financial information is presented as if the Tiffin, Ohio acquisition had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisition had actually occurred during those periods, or the results that may be obtained in the future as a result of the acquisition.

Pro Forma (unaudited)	Three months ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net Sales	\$31,048	\$ 33,356	\$90,431	\$ 92,480
Gross profit	4,775	5,993	15,044	15,046
Net (loss) income	(1,605)	2,349	(2,549)	6,047
Average common shares outstanding - Basic	7,951	7,951	7,951	7,951
Dilutive effect of convertible preferred stock	-	18,859	-	18,859
Average common shares outstanding - Diluted	7,951	26,810	7,951	26,810
Basic earnings per share	\$(0.20)	\$ 0.30	\$(0.32)	\$ 0.76
Diluted earnings per share	\$(0.20)	\$ 0.09	\$(0.32)	\$ 0.23

The Company incurred no costs and \$1.3 million in costs related to the April 7, 2015 acquisition during the three and nine months ended September 25, 2015. These costs were included within general and administrative expenses.

Note 11. SEVERANCE, RESTRUCTURING AND RELATED CHARGES

In the first quarter of 2015, the Company committed to a plan to move its manufacturing facility from Bridgeton, Missouri to Jefferson City, Missouri. Management estimates the resulting severance, restructuring and related charges will be approximately \$5.8 million, of which \$1.6 million will be for contract termination costs, \$0.6 million will be for severance costs and \$3.6 million will be for other relocation associated costs. The relocation is expected to be completed by the end of 2015. These costs are outlined in the below tables:

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	Three Months Ended September 25, 2015	Nine Months Ended September 25, 2015
Contract termination costs	\$ -	\$ 1,600
Severance costs	551	651
Other associated costs	1,226	1,663
Total restructuring costs	\$ 1,777	\$ 3,914

	Contract Termination Costs	Severance Costs	Other Associated Costs	Total
Restructuring liabilities at December 31, 2014	\$ -	\$ -	\$ -	\$-
Additions	1,600	651	1,663	3,914
Payments	(1,600)	(31)	(1,429)	(3,060)
Other	-	-	-	-
Restructuring liabilities at September 25, 2015	\$ -	\$ 620	\$ 234	\$854

In February 2015, the Company paid a \$1.6 million early termination fee to exit the lease of its Bridgeton, Missouri facility. The early termination fee is included within severance, restructuring and related charges.

We recognized a gain of \$0.7 million related to liabilities from the acceleration of the lease term, which is recorded in general and administrative expenses.

In addition, the Company entered into a new lease for its manufacturing operations in Jefferson City, Missouri in March 2015. The Company received a \$1.7 million incentive payment upon signing of the lease and has since received additional incentive payments of \$0.5 million since as well as \$0.1 million from the county and \$0.4 from the city, which are included in other liabilities. The incentive payments will be recognized straight-line over the term of the lease in cost of goods sold.

Note 12. GOODWILL AND INTANGIBLE ASSETS

Intangible assets were acquired in the FTW and Tiffin, Ohio acquisitions. The fair value of the intangible assets related to the Tiffin, Ohio manufacturing facility acquisition are currently recorded at their preliminary estimated fair values as of the date of the acquisition (see Note 10 for a more detailed discussion). Following is detailed information regarding the Company's intangible assets (amounts in thousands):

	September 25, 2015			December 31, 2014		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Amortizable:						
Customer lists	\$21,259	\$ (702)	\$ 20,557	\$3,760	\$ (157)	\$ 3,603
Unamortizable:						
Goodwill	8,377	-	8,377	2,556	-	2,556
Tradenames	596	-	596	306	-	306
Total	\$30,232	\$ (702)	\$ 29,530	\$6,622	\$ (157)	\$ 6,465

The amounts in the above table vary from those previously reported in the prior Form 10-Q due to new information that became available to management in the three months ended September 25, 2015, which resulted in an additional \$6.0 million being allocated to customer lists, with the offset to goodwill.

Customer lists have a 20 year useful life.

For the three and nine months ended September 25, 2015, the Company recorded amortization expense on intangible assets of \$304,000 and \$545,000, respectively. Amortization expense of \$47,000 and \$108,000 was recognized for the three and nine months ended September 26, 2014, respectively.

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Note 13. LEASE OBLIGATIONS

On March 25, 2015, the Company entered into a commercial lease agreement, for approximately 534,000 square feet of manufacturing and warehouse space located in Jefferson City, Missouri. The initial rental term of the lease is for one hundred and thirty two (132) months, commencing on January 1, 2016 and ending on December 31, 2026. The Company has the right and option to renew the lease for all or a portion of the premises for two (2) renewal periods of five (5) years each on the terms and conditions set forth in the lease. Commencing on January 1, 2016, the Company shall pay rent in the amount of \$138,395. The lease includes rent escalators whereby the maximum rental amount is \$156,195 during the final eleven months of the lease. The company took possession of the facility on June 1, 2015 and will straight line the rent expense over a term of one hundred and thirty nine (139) months commencing on June 1, 2015 and ending on December 31, 2026.

On April 7, 2015, the Company entered into a lease agreement for approximately 96,000 square feet of industrial and office space in Tiffin, Ohio. The initial rental term of the lease is for one five (5) year period, commencing on April 7, 2015 and ending on March 15, 2020. The Company has the right and option to renew the lease for one (1) renewal period of five (5) years on the terms and conditions set forth in the lease. The initial monthly rent is \$18,000.

Item 2. 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 Item 1A under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014. Words and phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "may," "should," "will," "continue," "is subject to" 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, broom corn, cotton and other raw materials.
- Our inability to integrate the shelf and cabinet business in Tiffin, Ohio into our control and operational structure.
- Our inability to efficiently move our manufacturing facility from Bridgeton, Missouri to Jefferson City, Missouri.
- 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 our debt agreements.

- Our inability to meet covenants associated with our debt agreements.

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- Our inability to access funds under our current loan agreements or refinance our loan agreements given the current instability in the credit markets.

- 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 environmental compliance and income taxes.

OVERVIEW

We are a manufacturer, importer and distributor of commercial cleaning and storage products and a contract manufacturer of structural foam 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. Our contract manufactured structural foam services are primarily sold through the automotive aftermarket and material handling markets.

RESULTS OF OPERATIONS

Three Months Ended September 25, 2015 versus Three Months Ended September 26, 2014

Net sales increased 17.0% from \$26.5 million during the three months ended September 26, 2014 to \$31.0 million during the three months ended September 25, 2015. The increase was a result of the acquisition of the Tiffin, Ohio manufacturing facility, which contributed \$6.8 million in net sales for the three months ended September 25, 2015, which was partially offset by decreased demand in our Continental business unit. Gross margin was 15.4% for the three months ended September 25, 2015, a decrease of 340 basis points from the same period a year ago. The decrease was primarily a result of lower margins on sales from our Tiffin, Ohio facility and increased rent expense incurred due to operating of both our Bridgeton, Missouri and Jefferson City, Missouri facilities during our relocation for the three months ended September 25, 2015 as compared to the three months ended September 26, 2014. As a result of the increase in sales offset by lower gross margin, our gross profit decreased \$0.2 million from \$5.0 million to \$4.8 million.

The severance, restructuring and related charges of \$1.8 million for the three months ended September 25, 2015 were for relocation of our Bridgeton, Missouri facility to Jefferson City, Missouri.

Operating loss was \$0.5 million for the three months ended September 25, 2015, compared to income of \$1.5 million for the same period a year ago. The decrease in operating income was primarily the result of the increase in severance, restructuring and related charges.

Interest expense increased by \$1.0 million during the three months ended September 25, 2015 as compared to the three months ended September 26, 2014 as a result of the increased borrowings under the First and Second Lien Credit Agreements (See Note 4) during 2015.

Overall, we reported a net loss of \$1.6 million, or \$0.20 per basic and diluted share, for the three months ended September 25, 2015, as compared to net income of \$1.4 million, or \$0.17 per basic (\$0.05 per diluted share), for the three months ended September 26, 2014. The decrease is primarily a result of the increased interest expense incurred due to the increased borrowings during 2015 and the increased severance, restructuring and related charges related to the Bridgeton, Missouri facility relocation.

Nine Months Ended September 25, 2015 versus Nine Months Ended September 26, 2014

Net sales increased 16.1% from \$72.1 million during the nine months ended September 26, 2014 to \$83.7 million during the nine months ended September 25, 2015. The increase was a result of the acquisition of the Tiffin, Ohio manufacturing facility, which contributed \$11.7 million in net sales for the nine months ended September 25, 2015. Gross margin was 15.7% for the nine months ended September 25, 2015, a decrease of 100 basis points from the same period a year ago. The decrease was primarily a result of lower margins on sales from our Tiffin, Ohio facility and increased rent expense incurred due to operating at both our Bridgeton, Missouri and Jefferson City, Missouri facilities during our relocation for the nine months ended September 25, 2015 as compared to the nine months ended September 26, 2014. As a result of the increase in sales partially offset by a decrease in gross margin, our gross profit increased \$1.1 million from \$12.1 million to \$13.2 million.

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Selling, general and administrative (“SG&A”) expenses increased \$0.5 million to \$11.1 million for the nine months ended September 25, 2015 from \$10.6 million for the same period a year ago. The increase was primarily due to one-time acquisition costs for the Tiffin, Ohio manufacturing facility for the nine months ended September 25, 2015, partially offset by one-time acquisition costs for FTW in the prior year.

Severance, restructuring and related charges of \$3.9 million for the nine months ended September 25, 2015 were for the relocation of our Bridgeton, Missouri facility to Jefferson City, Missouri.

Operating income decreased from \$1.4 million during the nine months ended September 26, 2014 to a loss of \$1.9 million during the nine months ended September 25, 2015. The decrease in the operating income was primarily the result of the severance, restructuring and related charges related to the relocation of our Bridgeton, Missouri facility and increased selling, general and administrative expenses related to the acquisition of the Tiffin, Ohio manufacturing facility, partially offset by increased gross profit.

Interest expense increased by \$1.9 million during the nine months ended September 25, 2015 as compared to the nine months ended September 26, 2014 as a result of the increased borrowings under the First and Second Lien Credit Agreements (See Note 4) during the nine months ended September 25, 2015.

The income tax benefit for the nine months ended September 26, 2014 includes a benefit as a result of the acquisition of FTW. The Company recorded deferred tax liabilities of \$2.4 million which reduced its net deferred tax assets. The reduction in deferred tax assets caused a release of a valuation allowance of \$2.3 million.

Overall, we reported a net loss of \$4.4 million, or \$0.56 per basic and diluted share, for the nine months ended September 25, 2015, as compared to net income of \$3.1 million, or \$0.38 per basic (\$0.11 per diluted share), for the nine months ended September 26, 2014. The decrease is a result of the 2015 increase in selling, general and administrative expenses, severance, restructuring and related charges and increased interest expense discussed above as well as the one-time tax benefit of \$2.3 million in the first quarter of 2014, and acquisition costs associated with the acquisition of FTW in the first quarter of 2014. With the exclusion of one-time items related to our facility relocation and acquisition costs included in selling, general and administrative expenses in 2015 and the one-time tax benefit and acquisition costs in 2014, net income was \$1.3 million for the nine months ended September 25, 2015 versus net income of \$0.8 million for the nine months ended September 26, 2014.

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 BMO Credit Agreement (as defined below) provides sufficient liquidity for our operations going forward. As of September 25, 2015, we had cash of \$0.1 million and outstanding checks of \$0.6 million as compared to cash of \$0.1 million and outstanding checks of \$0.7 million at December 31, 2014. Our unused borrowing availability at September 25, 2015 under the BMO Credit Agreement was \$5.2 million. As of December 31, 2014, we had unused borrowing availability of \$2.3 million.

Long-term debt consists of the following (amounts in thousands):

	September 25, 2015	December 31, 2014
Revolving loans payable under the BMO Credit Agreement	\$ 26,342	\$ 21,967
Second Lien term loan payable under the VPM Credit Agreement	24,462	-
Total debt	50,804	21,967

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Less revolving loans, classified as current	(26,342)	(21,967)
Less current maturities	(600)	-
Long-term debt	\$ 23,862	\$-

Aggregate remaining scheduled maturities of the Term Loan as of September 25, 2015 are as follows (amounts in thousands):

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2016	\$600
2017	2,400
2018	2,400
2019	19,062
Total	\$24,462

On February 19, 2014, the Company and BMO Harris Bank N.A. entered into a Credit and Security Agreement (the “BMO Credit Agreement”), which 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 PrivateBank Loan and Security Agreement (the “PB Loan Agreement”), finance the acquisition of FTW (as defined in Note 10), and pay certain fees and expenses related to the negotiation and consummation of the BMO Credit Agreement. 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.

First Lien Credit Agreement

On April 7, 2015, in conjunction with the acquisition described below, Katy Industries, Inc. (the “Company”), Continental Commercial Products, LLC, a Delaware limited liability company, 2155735 Ontario Inc., an Ontario corporation, CCP Canada Inc., an Ontario corporation, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, wholly owned direct or indirect subsidiaries of the Company (the foregoing, including the Company, the “Borrowers”), and BMO Harris Bank N.A., as lender (“BMO”) entered into Amendment No. 1 to Credit and Security Agreement, dated April 7, 2015 (the “Closing Date”), among the Borrowers and BMO (“Amendment No. 1”) to amend that certain Credit and Security Agreement, dated February 19, 2014 (the “Original BMO Credit Agreement”), among the Borrowers and BMO (the Original Credit Agreement, as amended by Amendment No. 1, the “BMO Credit Agreement”) and to obtain the consent of BMO to the acquisition described below.

Pursuant to Amendment No. 1, the revolving credit facility under the Original BMO Credit Agreement was increased from an amount not to exceed \$27.0 million to an amount not to exceed \$33.0 million. The revolving credit facility under the BMO Credit Agreement continues to include a \$3.0 million sub-limit for letters of credit. The proceeds advanced under the BMO Credit Agreement on the Closing Date were used to pay certain fees and expenses related to the negotiation and consummation of Amendment No. 1 and the acquisition of our Tiffin, Ohio manufacturing facility (as described in Note 10). Subject to the terms of an Intercreditor and Subordination Agreement, dated as of April 7, 2015 (the “Intercreditor Agreement”), between BMO and the SL Agent (as defined below), 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 Borrowers.

The Original BMO Credit Agreement was further amended pursuant to Amendment No. 1 to extend the maturity date of the credit facility from February 17, 2017 to April 7, 2018. The borrowing base continues to be determined by eligible inventory, accounts receivable, machinery and equipment and owned real estate amounting to \$32.6 million at September 25, 2015. The borrowing base under the BMO Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company’s largest letters of credit relate to its casualty insurance programs. Total outstanding letters of credit were \$1.1 million at September 25, 2015 and December 31, 2014.

Borrowings under the BMO Credit Agreement continue to 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 under the BMO Credit Agreement.

Amendment No. 1 amended the consolidated fixed charge coverage ratio under the Original BMO Credit Agreement and added a maximum annual capital expenditures, minimum consolidated EBITDA, minimum availability and a leverage ratio covenant. Amendment No. 1 also amended the Original BMO Credit Agreement to permit the secured second lien credit facility described below.

The BMO Credit Agreement continues to require 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 maturity date of April 7, 2018.

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Second Lien Credit Facility

On April 7, 2015, the Company, Continental Commercial Products, LLC, a Delaware limited liability company, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, as borrowers (the “SL Borrowers”) and 2155735 Ontario Inc., an Ontario corporation, and CCP Canada Inc., an Ontario corporation, as guarantors (the “Guarantors,” together with the SL Borrowers, the “SL Obligors”) entered into a Second Lien Credit and Security Agreement, dated as of April 7, 2015, among the SL Obligors, Victory Park Management, LLC, as Agent (the “SL Agent”), and the lenders party thereto (the “Second Lien Credit Agreement”).

The Second Lien Credit Agreement provides the SL Borrowers with a \$24.0 million term loan. The proceeds of the term loan were used to pay certain fees and expenses related to the negotiation and consummation of the credit facility and the acquisition of our Tiffin, Ohio manufacturing facility. Subject to the terms of the Intercreditor Agreement, all extensions of credit under the Second Lien Credit Agreement are collateralized by a second priority security interest in and lien upon substantially all present and future assets and properties of the SL Obligors.

The term loan under the Second Lien Credit Agreement bears interest (i) at a cash interest rate of the LIBOR (One Month) Rate then in effect plus 9.5% per annum and (ii) a Payment in Kind “PIK” interest rate equal to 4.00% per annum. The maturity date of the credit facility under the Second Lien Credit Agreement is April 6, 2019.

Pursuant to the Second Lien Credit Agreement, the SL Borrowers are to make quarterly amortization payments and annual excess cash flow prepayments equal to 25% of annual excess cash flow. The Second Lien Credit Agreement includes the following financial covenants: a consolidated fixed charge coverage ratio, a maximum annual capital expenditures, a minimum consolidated EBITDA, a minimum availability under the BMO Credit Agreement and a leverage ratio.

All of the debt under the BMO Credit Agreement and Second Lien Credit Facility are re-priced to current rates at frequent intervals. Therefore, its fair value approximates their carrying value at September 25, 2015. For the three and nine months ended September 25, 2015, the Company had amortization of debt issuance costs, included within interest expense, of \$180,000 and \$458,000, respectively. For the three and nine months ended September 26, 2014, the Company had amortization of debt issuance costs, included within interest expense, of \$56,000 and \$272,000, respectively. Included in amortization of debt issuance costs for the nine months ended September 26, 2014 is approximately \$109,000 of debt issuance costs written off due to the extinguishment of the PB Loan Agreement. The Company was in compliance with the financial covenants at September 25, 2015.

Cash Flows

Cash used in operating activities before changes in operating assets and liabilities was \$0.9 million in the nine months ended September 25, 2015 as compared to cash provided of \$2.7 million in the same period of 2014. Changes in operating assets and liabilities from continuing operations provided \$1.5 million in the nine months ended September 25, 2015 as compared to using \$5.7 million in the same period of 2014. The decrease in usage is primarily attributable to an increase in accounts payables, partially offset by increases in inventories, accounts receivable, other assets and decreases in accrued expenses.

Cash flows used by investing activities of \$26.0 million in the nine months ended September 25, 2015 were primarily due to the purchase of our Tiffin, Ohio manufacturing facility and capital expenditures related to the relocation of the Bridgeton, Missouri facility to Jefferson City, Missouri.

Cash flows provided by financing activities of \$25.6 million in the nine months ended September 25, 2015 were due to an increase of \$25.7 million in our bank borrowings, net of debt issuance costs since December 31, 2014, primarily due to the Tiffin, Ohio manufacturing facility acquisition.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 25, 2015, the Company had no off-balance sheet arrangements.

ENVIRONMENTAL AND OTHER CONTINGENCIES

See Note 9 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of environmental and other contingencies.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recently issued accounting pronouncements.

CRITICAL ACCOUNTING POLICIES

We disclosed details regarding certain of our critical accounting policies in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2014 (Part II, Item 7). There have been no changes to these policies as of September 25, 2015.

Item 4. 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.

We 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.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 25, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Except as otherwise noted in Note 9 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, during the quarter for which this report is filed, there have been no material developments in previously reported legal proceedings, and no other cases or legal proceedings, other than ordinary routine litigation incidental to the Company's business and other nonmaterial proceedings, were brought against the Company.

Item 1A. RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are described in Part I, Item 1A of our Annual Report on Form 10-K, filed on March 30, 2015. There has been no material change in those risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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IndexItem 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit

<u>Number</u>	<u>Exhibit Title</u>	<u>Page</u>
<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.	
<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.	
<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.	#
<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.	#
10.1	Credit and Security Agreement dated February 19, 2014 among Katy Industries, Inc., Continental Commercial Products, LLC, 2155735 Ontario Inc., CCP Canada Inc., and BMO Harris Bank N.A.	*
10.2	Stock Purchase Agreement dated January 24, 2014 by and between Continental Commercial Products, LLC, FTW Holdings, Inc., certain shareholders of FTW Holdings, Inc. and Fort Wayne Plastics, Inc.	*
10.3	Commercial Lease Agreement dated effective March 25, 2015 by and between Continental Commercial Products, LLC and 321 Wilson Drive, L.L.C.	*
10.4	Amendment No. 1 to Credit and Security Agreement dated as of April 7, 2015 among Katy Industries, Inc., Continental Commercial Products, LLC, 2155735 Ontario Inc., CCP Canada Inc., FTW Holdings, Inc., Fort Wayne Plastics, Inc. and BMO Harris Bank N.A.	*
10.5	Second Lien Credit and Security Agreement dated April 7, 2015 among Katy Industries, Inc., Continental Commercial Products, LLC, FTW Holdings, Inc., Fort Wayne Plastics, Inc., 2155735 Ontario Inc., CCP Canada Inc., the lenders party thereto and Victory Park Management, LLC, as Agent.	*
10.6	Asset Purchase Agreement dated April 7, 2015 among Continental Commercial Products, LLC, Centrex Plastics, LLC, T.R. Plastics, LLC, and Terrence L. Reinhart.	*
101	* Interactive data files pursuant to Rule 405 of Regulation S-5: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed 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.

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Signatures

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

KATY INDUSTRIES, INC.

Registrant

DATE: November 9, 2015 By /s/ David J. Feldman
David J. Feldman
President and Chief Executive Officer

By /s/ Curt Kroll
Curt Kroll
Vice President, Treasurer and Chief Financial Officer