KATY INDUSTRIES INC
Form 10-K
March 31, 2009

Table of Contents

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

FORM 10-K

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

For the fiscal year ended: **December 31, 2008**

OR
o 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 o NO þ

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 o NO þ

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 þ NO o

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

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. (Check one):

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

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

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 30, 2008 was $9,395,279*.

As of March 4, 2009, 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 2009 annual meeting of stockholders 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, 2008. With the exception of the sections of the 2009 Proxy Statement specifically incorporated herein by reference, the 2009 Proxy Statement is not deemed to be filed as part of this Form 10-K.

TABLE OF CONTENTS

PART I	
Item 1. BUSINESS	2
Item 1A. RISK FACTORS	5
Item 1B. UNRESOLVED STAFF COMMENTS	11
Item 2. PROPERTIES	12
Item 3. LEGAL PROCEEDINGS	12
Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	12
PART II	
Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	13
Item 6. SELECTED FINANCIAL DATA	14
Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	30
Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	31
Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	68
Item 9A. CONTROLS AND PROCEDURES	68
Item 9B. OTHER INFORMATION	68
Part III	
Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	70
Item 11. EXECUTIVE COMPENSATION	70
Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	70
Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	72
Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	72
Part IV	
Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	73
SIGNATURES	73
EXHIBITS	75

EX-10.9
EX-10.10
EX-10.16
EX-21
EX-23.1
EX-23.2
EX-31.1
EX-31.2
EX-32.1
EX-32.2

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. Our principal business is the manufacturing and distribution of commercial cleaning products. We also manufacture and distribute storage products. The Company s 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

Selected operating data for our only reporting unit, Maintenance Products Group, can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7. Information regarding foreign and domestic operations can be found in Note 16 to the Consolidated Financial Statements included in Part II, Item 8. Set forth below is information about our reporting unit.

The Maintenance Products Group s principal business is the manufacturing and distribution of commercial cleaning products. We also manufacture and distribute storage products. Commercial cleaning products are sold primarily to janitorial/sanitary and foodservice distributors that supply end users such as restaurants, hotels, healthcare facilities and schools. Storage products are primarily sold through major home improvement and mass market retail outlets. Net sales and operating loss for the Maintenance Products Group during 2008 were $167.8 million and $7.5 million, respectively. The group accounted for all of the Company s continuing revenues in 2008. Total assets for the group were $73.3 million at December 31, 2008. See Note 16 to the Consolidated Financial Statements of Katy included in Part II, Item 8 for a reconciliation of the operating amounts to the consolidated amounts.

Continental Commercial Products, LLC (CCP) is the successor entity to Contico International, L.L.C. (Contico) and includes as divisions all the former business units of Contico (Continental, Contico, and Container), as well as the following business units: Disco, Glit, Wilen, CCP Canada and Gemtex. CCP is headquartered in Bridgeton, Missouri near St. Louis, has additional operations in California, Georgia and Canada, and was created mainly for the purpose of simplifying our business transactions and improving our customer relationships by allowing customers to order products from various CCP divisions on one purchase order. 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 and food service markets. Continental products include commercial waste receptacles, buckets, mop wringers, janitorial carts, and other products designed for commercial cleaning and food service. Continental products are sold under the following brand names: Continental®, Kleen Aire®, Huskee™, SuperKan®, King Kan®, Unibody®, and Tilt-N-Wheel®.

The Contico business unit is a plastics manufacturer and distributor of home storage products, sold primarily through major home improvement and mass market retail outlets. Contico products include plastic home storage units such as domestic storage containers, shelving 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 Europe Limited.

The Container business unit is a plastics manufacturer and distributor of industrial storage drums and pails for commercial and industrial use. Products are sold under the Contico® and Contico Container™ brand names.

The CCP Canada business unit is primarily a distributor of plastic products for the commercial and sanitary maintenance markets in Canada.

The Disco business unit is a manufacturer and distributor of filtration, cleaning and specialty products sold to the restaurant/food service industry. Disco products include fryer filters, oil stabilizing powder, grill cleaning implements and other food service items and are sold under the Disco® name as well as BriteSorb®, and the Brillo® line of cleaning products. BriteSorb® is a registered trademark used under license from PQ Corporation, and Brillo® is a registered trademark used under license from Church & Dwight Company.

The Gemtex business unit is a manufacturer and distributor of resin fiber disks and other coated abrasives for the original equipment manufacturer (OEM), automotive, industrial, and home improvement markets. The most prominent brand name under which the product is sold is Trim-Kut®.

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 products include floor maintenance pads, hand pads, scouring pads, specialty abrasives for cleaning and finishing and roof ventilation products. These products are sold primarily in the commercial sanitary maintenance, food service and construction markets under the following brand names: Glit®, Kleenfast®, Glit/Microtron®, Fiber Naturals®, Big Boss II®, Blue Ice®, Brillo®, BAB-O®, Old Dutch® and Twister™. Old Dutch® is a registered trademark used under license from Dial Brands, Inc. and BAB-O® is a registered trademark used under license from Fitzpatrick Bros., Inc. Twister™ is a trademark of HTC Industries, Inc.

The Wilen business unit is an importer and distributor of professional cleaning products that include mops, brooms, brushes, and plastic cleaning accessories. Wilen products are sold primarily through commercial sanitary maintenance and food service markets, with some products sold through consumer retail outlets. Products are sold under the following brand names: Wilen®, Wax-o-matic® and Rototech®.

We have restructured many of our operations in order to maintain what we believe is 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 recording liabilities for non-cancelable leases at facilities that have been abandoned, severance and other employee termination and exit costs that may be incurred not only with consolidation of facilities, but potentially the complete shut down of certain manufacturing and distribution operations. We have incurred approximately $2.2 million in restructuring expenses since the beginning of 2006. Additional details regarding severance, restructuring and related charges can be found in Note 18 to the Consolidated Financial Statements included in Part II, Item 8.

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 commercial janitorial/sanitary maintenance and foodservice markets. Sales and marketing of these products is handled through a combination of direct sales personnel, manufacturers sales representatives, and wholesale distributors. We do not have one single customer that

comprises greater than ten percent of consolidated net sales.

The commercial distribution channels for our commercial cleaning products are highly fragmented, resulting in a large number of small customers, mainly distributors of janitorial cleaning products. We also market certain of our products to the construction trade, and resin fiber disks and other abrasive disks to OEMs. The markets for these commercial products are highly competitive. Competition is based primarily on price and the ability to provide superior customer service in the form of complete and on-time product delivery. Other competitive factors include

Table of Contents

brand recognition and product design, quality and performance. We compete for market share with a number of different competitors, depending upon the specific product. In large part, our competition is unique in each product line of the Maintenance Products Group. 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. While each product line is marketed under a different brand name, they are sold as complementary products, with customers able to access all products through a single purchase order. We also continue to strive to be a low cost producer in this industry; however, our ability to remain a low cost producer in the industry is highly dependent on the price of our raw materials, primarily 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 is generally 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 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, and also upon our development of new and innovative products. Our ability to become 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. Our restructuring efforts have included consolidation of facilities and headcount reductions.

Backlog

Our aggregate backlog position for the Maintenance Products Group was $4.2 million and $6.3 million as of December 31, 2008 and 2007, respectively. Substantially all of the orders in backlog as of December 31, 2008 are believed to be firm. Based on historical experience, substantially all orders are expected to be shipped during 2009.

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, 2008, but no prediction can be made as to possible future supply problems or production disruptions resulting from possible shortages. We are also 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, Container and Contico business units (and some others to a lesser extent) use polyethylene, polypropylene and other thermoplastic resins as raw materials in a substantial portion of their plastic products. After a steady increase in 2007 and a very substantial increase in the first ten months of 2008, prices of plastic resins, such as polyethylene and polypropylene, fell dramatically at the end of 2008 as world demand fell and suppliers sold off excess inventories. Prices have increased slightly in the first quarter of 2009 as suppliers have reduced production. Management has observed that the prices of plastic resins are driven to an extent by prices for crude oil and natural gas, in addition to other factors specific to the supply and demand of the resins themselves. Prices for corrugated packaging material and other raw materials have also accelerated over the past few years. 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. We were able to reduce the impact of some of these increases through supply contracts, opportunistic buying, 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. Our future earnings may

be negatively impacted to the extent further increases in costs for raw materials cannot be recovered or offset through higher selling prices. We cannot predict the direction our raw material prices will take during 2009 and beyond.

Table of Contents

Employees

As of December 31, 2008, we employed 680 people, of which 180 were members of various labor unions. Our labor relations are generally satisfactory and there have been no strikes in recent years. The next union contract set to expire, covering approximately 51 employees, will expire in January 2010.

Regulatory and Environmental Matters

Our operations are subject to various laws and regulations relating to workplace safety and the environment. Compliance with laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has historically had a material effect on our capital expenditures and earnings. See Note 17 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®; Glit®, Microtron®, Brillo®, and Kleenfast® (Glit); Wilen®; and Trim-Kut® (Gemtex).

Available Information

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.

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 Item 7.

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;
- 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. Quotes for stocks included on the OTC Bulletin Board are not listed in the financial sections of newspapers as are those for the New York Stock Exchange. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain and 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.

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 foreign suppliers and commodity markets to secure thermoplastic resins and other raw materials used in our products exposes us to volatility in the prices and 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 affect 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 materially adversely affect 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, specifically thermoplastic resin, have demonstrated volatility over the past few years. The volatility of resin 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.

Our inability to realize the benefits of our recent facility consolidations and restructuring plans or any future acquisition integration plans could adversely affect our business and results of operations.

During the past five years, we have consolidated several of our manufacturing, distribution and office facilities. The success of these consolidations and any future acquisitions will depend on our ability to integrate assets and personnel, apply our internal control processes to these businesses, and cooperate with our strategic partners. We may encounter difficulties in integrating business units acquired in the future with our operations and in managing strategic investments. Furthermore, we may not realize the degree or timing of benefits we anticipate when we first entered into these organizational changes. Any of the foregoing could adversely affect our business and results of operations.

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 five 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 by the use of Lean Manufacturing and other methods in order to reduce our overhead structure. In addition, in the future we will need to develop additional efficiencies within the sourcing/purchasing and administration areas of our operations. The plans and programs we may implement in the future for the purpose of improving efficiencies may not be completed substantially as planned, may be more costly to implement than expected and 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. In addition, over the past three years we identified and sold certain business assets that we considered non-core to our future operations for the purpose of improving our financial condition. There is no assurance that the sale of the assets will lead to increased profitability and our strategy of divestiture of non-core assets may not be successful in the long-term.

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

As of December 31, 2008 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, 2008, we had $17.5 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.

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 assure you 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 Second Amended and Restated Loan Agreement with Bank of America, N.A. (the Bank of America Credit Agreement), 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. In addition, our credit facility requires us to maintain at least $5.0 million in borrowing availability which represents our

eligible collateral base less outstanding borrowings and letters of credit. The borrowing availability requirement contained in our credit facility may restrict our operations and our ability to fund capital expenditures, operations and business opportunities in a normal manner. See Management s Discussion and Analysis of Financial Condition and Results of Operations Bank of America Credit Agreement for further discussion.

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. As of December 31, 2008, we were in compliance with all such covenants. If we were to breach any of our debt covenants and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Our debt arrangements contain cross-default provisions, which means that the lenders under those debt arrangements can place us in default and require immediate repayment of their 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, we may not be able to obtain further 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, 2008, we employed approximately 680 persons in our various businesses, of which approximately 26% were subject to collective bargaining or similar arrangements. As a result, we are subject to the risk of work stoppages and other labor-relations matters. These collective bargaining agreements expire at various times. The next union contract set to expire, covering approximately 51 employees, will expire in January 2010. 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.

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.

Disruption of our information technology and communications systems or our failure to adequately maintain our information technology and communications systems could have a material adverse effect on our business and operations.

We extensively utilize computer and communications systems to operate our business and manage our internal operations including demand and supply planning and inventory control. Any interruption of this service from power loss, a telecommunications failure, the failure of our computer systems or a computer virus or other interruption caused by weather, natural disasters or any similar event could disrupt our operations and result in lost sales.

We rely on our management information systems to operate our business and to track our operating results. Our management information systems will require modification and refinement as we grow and our business needs

change. If we experience a significant system failure or if we are unable to modify our management information systems to respond to changes in our business needs, our ability to properly manage our business could be adversely affected.

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, in part, 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 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.

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.

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 casualty and health insurance 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.

Management turnover could cause our business, results of operations and financial condition to suffer.

Our continued success in our business is based upon many factors, including but not limited to, the expansion of our customer base, the enhancement of the products we offer existing customers, aggressive sales and marketing efforts, effective cost containment and capital investment measures, and a strong strategic vision. Achievement of this success will require effective management both in headquarters and in business unit operations. During fiscal 2008, we had a high level of turnover in our management positions. Any inability to effectively manage our existing business and our future growth may harm our business, results of operations, and financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

Item 2. PROPERTIES

As of December 31, 2008, our total building floor area owned or leased was 1,654,000 square feet, of which 185,000 square feet were owned and 1,469,000 square feet were leased. The following table shows a summary by location of our principal facilities including the nature of the facility and the related business unit.

Location	Facility	Business Unit
UNITED STATES		
California		
Norwalk	Office, Manufacturing, Distribution	Continental, Contico, Container
Chino	Distribution	Continental, Contico, Glit, Wilen, Disco
Georgia		
Atlanta	Office, Manufacturing, Distribution	Wilen
McDonough	Office, Manufacturing, Distribution	Glit, Wilen, Disco
Wrens*	Office, Manufacturing, Distribution	Glit
Missouri		
Bridgeton	Office, Manufacturing, Distribution	Continental, Contico, Corporate
Hazelwood	Manufacturing	Contico
CANADA		
Ontario		
Toronto	Office, Manufacturing, Distribution	Gemtex, CCP Canada

* Office/manufacturing facility is owned.

These business units are all part of the Maintenance Products Group reportable segment at December 31, 2008. 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 17 to the Consolidated Financial Statements in Part II, Item 8 and is incorporated by reference herein.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders during the fourth quarter of 2008.

Table of Contents

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our stock is traded on the OTC Bulletin Board system (OTCBB) under the symbol KATY. Trading of our common stock on the OTCBB commenced on April 16, 2007. Our common stock previously traded on the New York Stock Exchange (NYSE) until April 12, 2007.

The following table sets forth high and low sales prices for the common stock in composite transactions as reported on the NYSE composite tape through April 12, 2007 and subsequently on the OTCBB system. 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.

Period	High	Low
2008		
First Quarter	$ 2.20	$ 0.85
Second Quarter	1.95	0.85
Third Quarter	1.75	0.80
Fourth Quarter	1.44	0.70
2007		
First Quarter	$ 2.72	$ 2.00
Second Quarter	2.20	1.05
Third Quarter	1.65	1.10
Fourth Quarter	2.00	0.75

As of March 4, 2009, there were 555 holders of record of our common stock, in addition to approximately 1,400 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 Board of Directors suspended quarterly dividends on March 30, 2001 in order to preserve cash for operations, and the Company has not declared or paid any cash dividends on its common stock since that time. In addition, the Bank of America Credit 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 Bank of America Credit 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 Bank of America Credit Agreement, see 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, 2008 is set forth in Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2008	2007	2006	2005	200
	(Amounts in Thousands, except per share data and percentages)				
s	$ 167,802	$ 187,771	$ 192,416	$ 200,085	$ 22
rofit	$ 12,124	$ 20,254	$ 25,069	$ 14,439	$ 19
m continuing operations	$ (18,801)	$ (13,881)	$ (8,661)	$ (22,466)	$ (48
nued operations [a]	2,319	12,380	(2,962)	8,669	12
tive effect of a change in accounting principle [a][b]			(756)		
	(16,482)	(1,501)	(12,379)	(13,797)	(36
t-in-kind of dividends on convertible preferred stock [c]					(14
attributable to common stockholders	$ (16,482)	$ (1,501)	$ (12,379)	$ (13,797)	$ (56
share of common stock Basic and diluted:					
m continuing operations attributable to common ders	$ (2.36)	$ (1.75)	$ (1.09)	$ (2.83)	$
nued operations	0.29	1.56	(0.37)	1.09	
tive effect of a change in accounting principle			(0.09)		
attributable to common stockholders	$ (2.07)	$ (0.19)	$ (1.55)	$ (1.74)	$
sets	$ 77,295	$ 98,564	$ 182,694	$ 212,094	$ 224
ries, net	19,911	26,160	55,960	62,799	63
lders equity	19,293	36,456	42,032	54,704	68
rm debt, including current maturities	17,546	13,453	56,871	57,660	58
ents of long-lived assets [d]				2,112	29
ce, restructuring and related charges [d]	(360)	2,581	17	956	2
ation and amortization [d]	8,259	7,294	7,628	7,699	10
expenditures [d]	7,535	4,403	3,733	8,210	9
g capital [e]	$ 8,030	$ 15,622	$ 48,564	$ 48,132	$ 59
debt to capitalization	47.6%	27.0%	57.5%	51.3%	
d average common shares outstanding Basic and	7,951,176	7,951,231	7,966,742	7,948,749	7,883
of employees	680	920	1,172	1,544	
vidends declared per common share	$	$	$	$	$

[a] Presented net of tax.

[b] This amount is stock compensation expense recorded with the adoption of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*.

[c] Represents a 15% payment-in-kind dividend on our Convertible Preferred Stock. See Note 11 to the Consolidated Financial Statements in Part II, Item 8.

[d] From continuing operations only.

[e] Defined as current assets minus current liabilities, exclusive of deferred tax assets and liabilities and debt classified as current.

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 Item 1A under the caption Risk Factors. Words and phrases such as expects, estimates, will, intends, plans, believes, should, anticipates, 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, and other raw materials.*
- *Our inability to reduce product costs, including manufacturing, sourcing, freight, and other product costs.*
- *Our inability to reduce administrative costs through consolidation of functions and systems improvements.*
- *Our inability to protect our intellectual property rights adequately.*
- *Our inability to reduce our raw materials costs.*
- *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.*
- *Competition from foreign competitors.*
- *The potential impact of rising interest rates on our debt outstanding under the Bank of America Credit Agreement.*
- *Our inability to meet covenants associated with the Bank of America Credit Agreement.*
- *Our inability to access funds under our current 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 controls over financial reporting.

- *The potential impact of rising costs for insurance for properties and various forms of liabilities.*

- *The potential impact of changes in foreign currency exchange rates related to our Canadian operations.*

- *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.*

Restatement of Prior Financial Information

As a result of accounting errors in the Company s raw material inventory records, management and the Company s Audit Committee determined on August 6, 2007 that the Company s previously issued consolidated financial statements for the years ended December 31, 2006 and 2005 should no longer be relied upon. The Company s decision to restate its consolidated financial statements was based on facts obtained by management and the results of an independent investigation of the physical raw material inventory counting process at CCP. These procedures resulted in the identification of the overstatement of raw material inventory when completing the physical inventories. At the time of the physical inventories, the Company did not have sufficient controls in place to ensure that the accurate physical raw material inventory on hand was properly accounted for and reported in the proper period. On August 17, 2007 the Company filed an amended Annual Report on Form 10-K/A as of December 31, 2006 and an amended Quarterly Report on Form 10-Q/A as of March 31, 2007 in order to restate the consolidated financial statements. All amounts included in this Annual Report for the above periods properly reflect the restatement.

OVERVIEW

We are a manufacturer, importer and distributor of commercial cleaning and storage products. Our commercial cleaning products are sold primarily to janitorial/sanitary 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. We have one reporting unit: the Maintenance Products Group. Three businesses formerly included in the Maintenance Products Group (Contico Manufacturing, Ltd. (CML), Metal Truck Box and Contico Europe Limited (CEL)), and the Electrical Products reporting unit have been classified as discontinued operations for the periods prior to their sale. These business units were sold in 2007 and 2006.

Over the past few years, our management has been focused on a number of restructuring and cost reduction initiatives, including the consolidation of facilities, divestiture of non-core operations, 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 (including Lean Manufacturing and Six Sigma), value engineering products, improved sourcing/purchasing and lean administration.

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 in our janitorial/sanitary segment are used for cleaning buildings and office space as well as general cleaning, as vacancies increase the demand for our products will be reduced. As all customers have been impacted through the reduction of available credit lines, our distributors/wholesale retailers have reduced their overall investment in inventories. Both of these occurrences have caused a one-time shrinkage of available business.

Our core commercial cleaning product markets 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 commercial segment to benefit. Demand for consumer plastic storage products is closely linked to value items and the ability to pass 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 in the Maintenance Products Group include 1) improving a low 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 higher 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, as new products or beneficial modifications of existing products increase demand from our customers, provide novelty to the consumer, and offer an opportunity for

favorable pricing from customers. Retention of customers, or more specifically, product lines with those customers, is also very important in the mass merchant retail area, given the vast size of these national accounts.

Discontinued Operations

Over the past three years, we identified and sold certain business units that we considered non-core to the future operations of the Company. On November 30, 2007 we sold the Electrical Products Group, which was comprised of the Woods Industries, Inc. (Woods US) and Woods Industries (Canada), Inc. (Woods Canada) business units. The Electrical Products Group s principal business was the design and distribution of consumer electrical corded products. Products were sold principally to national home improvement and mass merchant retailers in the United States and Canada. The Electrical Products Group was sold for gross proceeds of approximately $50.7 million, including amounts placed into escrow of $7.7 million related to the filing and receipt of a foreign tax certificate and the sale of specific inventory. During fiscal 2007 we recognized a gain on sale of discontinued businesses of $1.3 million in connection with this sale. The gain in fiscal 2007 did not include $0.9 million of the $7.7 million in escrow as further steps were required to realize those funds. During the year ended December 31, 2008 we received $7.7 million from escrow upon the receipt of the foreign tax certificate and sale of specific inventory, as well as $0.8 million in final working capital adjustment. As a result, we recognized an additional $1.7 million gain on sale of discontinued businesses, consisting of the $0.9 million in escrow not recognized at the time of sale and the $0.8 million final working capital adjustment. As of December 31, 2008 there were no amounts remaining in escrow.

In 2007 we sold the CML business unit, a distributor of a wide range of cleaning equipment, storage solutions and washroom dispensers for the commercial and sanitary maintenance and food service markets primarily in the U.K. for gross proceeds of approximately $10.6 million, including a receivable of $0.6 million associated with final working capital levels. A gain (net of tax) of $7.1 million was recognized in 2007. We recorded a gain of $0.1 million during 2008 in connection with the ultimate collection of the receivable. CML was formerly part of the Maintenance Products Group.

In 2006 we sold the CEL business unit, a manufacturer and distributor of plastic consumer storage and home products sold primarily to major retail outlets in the U.K., for gross proceeds of approximately $3.0 million. A loss (net of tax) of $5.4 million was recognized in 2006. CEL was formerly part of the Maintenance Products Group. In 2007 we sold the real estate assets associated with the business unit for gross proceeds of approximately $6.1 million, which resulted in a gain of approximately $1.9 million.

In 2006 we sold the Metal Truck Box business unit, a manufacturer and distributor of aluminum and steel automotive storage products located in Winters, Texas, for gross proceeds of approximately $3.6 million, including a note receivable of $1.2 million, and recognized a loss of $0.1 million as a result of the sale. The Metal Truck Box business unit was formerly part of the Maintenance Products Group.

Table of Contents

	Years Ended December 31,					
	2008		2007		2006	
	(Amounts in Millions, except per share data and percentages)					
	$	% to Sales	$	% to Sales	$	% to Sales
Net sales	$ 167.8	100.0	$ 187.8	100.0	$ 192.4	100.0
Cost of goods sold	155.7	92.8	167.5	89.2	167.3	87.0
Gross profit	12.1	7.2	20.3	10.8	25.1	13.0
Selling, general and administrative expenses	29.0	(17.2)	26.0	(13.8)	30.5	(15.8)
Severance, restructuring and related charges	(0.4)	0.2	2.6	(1.4)		
Loss on sale or disposal of assets	1.0	(0.6)	2.4	(1.3)	0.4	(0.2)
Operating loss	(17.5)	(10.4)	(10.7)	(5.7)	(5.8)	(3.0)
Equity in income of equity method investment			0.8			
Gain on SESCO joint venture transaction					0.6	
Interest expense	(1.7)		(4.6)		(4.2)	
Other, net	0.5		(0.1)		0.2	
Loss from continuing operations before income tax (provision) benefit	(18.7)		(14.6)		(9.2)	
Income tax (provision) benefit from continuing operations	(0.1)		0.7		0.5	
Loss from continuing operations	(18.8)		(13.9)		(8.7)	
Income from operations of discontinued businesses (net of tax)	0.6		2.3		2.5	
Gain (loss) on sale of discontinued businesses (net of tax)	1.7		10.1		(5.4)	
Loss before cumulative effect of a change in accounting principle	(16.5)		(1.5)		(11.6)	
Cumulative effect of a change in accounting principle (net of tax)					(0.8)	
Net loss	$ (16.5)		$ (1.5)		$ (12.4)	
Loss per share of common stock						
Basic and diluted						
Loss from continuing operations	$ (2.36)		$ (1.75)		$ (1.09)	
Discontinued operations	0.29		1.56		(0.37)	

Cumulative effect of a change in accounting principle			(0.09)
Net loss	$ (2.07)	$ (0.19)	$ (1.55)

RESULTS OF OPERATIONS

2008 COMPARED TO 2007

Net sales from our only reporting segment, the Maintenance Products Group, decreased from $187.8 million during the year ended December 31, 2007 to $167.8 million during the year ended December 31, 2008, a decrease of 10.6%. Overall, this decline was due primarily to lower volumes from our Contico business unit, which sells primarily to mass merchant customers, due to our decision to exit certain unprofitable business lines, particularly in the face of rising resin costs. In addition, business units selling into the janitorial, food service and building markets incurred volume shortfalls during the year ended December 31, 2008.

Gross margin was 7.2% for the year ended December 31, 2008, a decrease of 3.6 percentage points from the prior year. Gross margin was adversely impacted by lower volume at all of our business units, rising material costs which were not fully recovered from the marketplace, and accelerated depreciation on certain assets at our Bridgeton and Hazelwood facilities. Selling, general & administrative expenses (SG&A) were $29.0 million, or

17.2% of net sales, in 2008, as compared to $26.0 million, or 13.8% of net sales, in 2007. The variance was due to $1.1 million in severance and related transition costs for our former chief executive officer; a $2.6 million net increase in health, general and casualty insurance expense; and $0.5 million in costs related to our plans to deregister our common stock, partially offset by reductions of $0.5 million in professional fees, $0.5 million in stock-based compensation, and $0.2 million in franchise taxes.

Severance, Restructuring and Related Charges

Operating results for the year ended December 31, 2008 were positively impacted by income of $0.4 million from severance, restructuring and related charges. Such income was a result of a reduction of the remaining balance of the non-cancelable lease liability for the Washington, Georgia facility upon the one-time payment to cancel the Company s future lease obligations. This income was partially offset by charges in 2008 related to changes in lease assumptions for the abandoned Hazelwood facility. Operating results for the year ended December 31, 2007 were adversely impacted by severance, restructuring and related charges of $2.6 million. Charges in 2007 related to changes in lease assumptions for the abandoned Hazelwood facility. In addition, the Company incurred severance, restructuring and related charges with the closure of the Washington facility including the impairment of assets and other costs associated with abandoning the facility. Refer to further discussion of severance and restructuring charges under the caption Liquidity and Capital Resources Severance, Restructuring and Related Charges below, and Note 18 to the Consolidated Financial Statements in Part II, Item 8.

<u>Other</u>

Interest expense decreased by $2.9 million in 2008 compared to 2007 partially as a result of $0.9 million of debt issuance costs being written off in 2007 ($0.3 million from the reduction in the revolving loan within the Previous Credit Agreement (as defined below) on March 8, 2007, and $0.6 million from the reduction in the number of banks included in the Bank of America Credit Agreement), and also as a result of lower average borrowings and interest rates.

Other, net of $0.5 million for the year ended December 31, 2008 consisted primarily of a gain recognized as a result of the settlement agreement reached with Pentland USA, Inc. (PUSA) as described in Note 17 to the Consolidated Financial Statements, offset partially by currency translation losses.

We recorded an income tax provision from continuing operations of $0.1 million in 2008, as benefits recognized from our pre-tax loss from continuing operations and the reduction in liabilities related to uncertain tax positions were more than offset by an increase in the valuation allowance for our deferred tax assets and liabilities.

With the sale of the Metal Truck Box, CEL, CML, Woods US, and Woods Canada business units in 2007 and 2006, all activity associated with these units has been classified as discontinued operations. Income from operations, net of tax, for these business units was approximately $0.6 million in 2008 compared to $2.3 million in 2007. Gain on sale of discontinued businesses in 2008 represents a gain of $1.7 million recorded for the finalization and receipt of the working capital adjustments associated with the CML business unit, the receipt of a working capital adjustment and recognition of the deferred gain from the sales of the Woods US and Woods Canada business units. Gain on sale of discontinued businesses in 2007 includes a gain of $8.4 million recorded for the sales of the CML, Woods US and Woods Canada business units. Additionally, gains (losses) related to the CEL business unit were recorded in 2007 of $1.9 million for the separate sale of the real estate assets and ($0.2) million as a result of finalizing the working capital adjustment.

Overall, we reported a net loss of $16.5 million [$2.07 per share] for the year ended December 31, 2008, as compared to a net loss of $1.5 million [$0.19 per share] in the same period of 2007.

2007 COMPARED TO 2006

Net sales from our only reporting segment, the Maintenance Products Group, decreased 2.4% from $192.4 million during the year ended December 31, 2006 to $187.8 million during the year ended December 31, 2007. Overall, this decline was primarily due to lower volume of 4.2% offset by higher pricing of 1.5% and favorable currency translation of 0.3%. Reduced activity within the business units selling into the janitorial markets

as well as lower volume at our Glit business unit due to reduced building industry activity were the primary reasons for the volume shortfall for the year ended December 31, 2007.

Higher pricing resulted from the implementation of selling price increases across the Maintenance Products Group, which took effect in the fourth quarter of 2006 and the first quarter of 2007. The implementation of price increases was in response to the increasing cost of our primary raw materials, packaging materials, utilities and freight.

Gross margin was 10.8% in the year ended December 31, 2007, a decrease of 2.2 percentage points from the year ended December 31, 2006. Gross margin was adversely impacted by lower volume and production inefficiencies at our Glit business as well as an unfavorable variance in our LIFO adjustment of $1.8 million primarily resulting from the addition of a current year incremental layer and the change in resin prices. Selling, general and administrative expenses (SG&A) as a percentage of sales were 13.8% in 2007 compared to 15.8% in 2006 as a result of lower requirements under the Company s incentive compensation program and self-insurance programs as well as various cost improvements implemented in the past year.

Severance, Restructuring and Related Charges

Operating results for the year ended December 31, 2007 were adversely impacted by severance, restructuring and related charges of $2.6 million. Charges in 2007 related to changes in lease assumptions for the Hazelwood abandoned facility. In addition, the Company incurred severance, restructuring and related charges with the closure of the Washington, Georgia facility. Upon ceasing use of the facility, costs included the impairment of assets and other costs associated with abandoning the facility. Operating results for the year ended December 31, 2006 include a reduction of the non-cancelable lease liability for our Hazelwood, Missouri facility. This reduction in the liability was offset by costs associated with the restructuring of the Glit business ($0.3 million) and costs associated with the relocation of corporate headquarters ($0.2 million). Refer to further discussion of severance and restructuring charges under the caption Liquidity and Capital Resources Severance, Restructuring and Related Charges below, and Note 18 to the Consolidated Financial Statements in Part II, Item 8.

<u>Other</u>

In 2007, the Company recognized $0.8 million in equity income from the Sahlman investment compared to no net income being recognized in 2006. On December 20, 2007, the Company sold its equity investment to Sahlman for $3.0 million, which resulted in a gain of $0.8 million being reflected within the equity in income of equity method investment. See Note 5 to the Consolidated Financial Statements in Part II, Item 8.

On June 27, 2006, the Company and Montenay Power Corporation (Montenay) amended the partnership interest purchase agreement in order to allow the Company to completely exit from the Savannah Energy Systems Company (SESCO) operations and related obligations. In addition, Montenay became the guarantor under the loan obligation for the IRBs. Montenay purchased the Company s limited partnership interest for $0.1 million and a reduction of approximately $0.6 million in the face amount due to Montenay as agreed upon in the original partnership agreement. In addition, Montenay removed the Company as the performance guarantor under the service agreement. As a result of the above transaction, the Company recorded a gain of $0.6 million within continuing operations during the year ended December 31, 2006 given the reduction in the face amount due to Montenay as agreed upon in the original partnership interest purchase agreement.

Interest expense increased by $0.4 million in 2007 as compared to 2006 primarily as a result of $0.9 million of debt issuance costs being written off due to entering into the Second Amended and Restated Credit Agreement with Bank of America. This expense is partially offset by lower average borrowings and interest rates. The benefit from income taxes for 2007 and 2006 reflects a benefit of $0.8 million which offsets a tax provision reflected under discontinued

operations for domestic income taxes. The benefit from income taxes for 2007 also reflects state income and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) provisions of $0.1 million. The benefit from income taxes for 2006 also reflects state income tax and miscellaneous tax provisions of $0.3 million.

With the sale of the Metal Truck Box, CEL, CML, Woods US, and Woods Canada business units over the past two years, all activity associated with these units is classified as discontinued operations. Income from operations, net of tax, for these business units was approximately $2.3 million in 2007 compared to income of $2.5 million in 2006. Gain on sale of discontinued businesses in 2007 includes a gain of $8.4 million recorded for the sales of the CML, Woods US and Woods Canada business units. Additionally, gains (losses) related to the CEL business unit were recorded in 2007 of $1.9 million for the separate sale of the real estate assets and ($0.2) million as a result of finalizing the working capital adjustment. Loss on sale of discontinued businesses in 2006 includes a $0.1 million loss on the sale of the Metal Truck Box business unit, and a $5.4 million loss on the sale of the CEL business unit.

Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payments*. As a result, a cumulative effect of this adoption of $0.8 million was recognized associated with the fair value of all vested stock appreciation rights (SARs). Overall, we reported a net loss of $1.5 million [$0.19 per share] for the year ended December 31, 2007, as compared to a net loss of $12.4 million [$1.55 per share] in the same period of 2006.

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 Bank of America Credit Agreement (as defined below) provide sufficient liquidity for our operations going forward. As of December 31, 2008, we had cash of $0.7 million as compared to cash of $2.0 million at December 31, 2007. Also as of December 31, 2008, we had outstanding borrowings of $17.5 million (48% of total capitalization) under the Bank of America Credit Agreement. Our unused borrowing availability at December 31, 2008 on the Revolving Credit Facility (as defined below) was $2.9 million after the $5.0 million minimum availability requirement discussed below. As of December 31, 2007, we had outstanding borrowings of $13.5 million (27% of total capitalization) with unused borrowing availability of $11.0 million after the $5.0 million minimum availability requirement.

We have a number of obligations and commitments, which are listed on the schedule later in this section entitled Contractual and Commercial Obligations. We have considered all of these obligations and commitments in structuring our capital resources to ensure that they can be met. See the notes accompanying the table in that section for further discussions of those items.

Bank of America Credit Agreement

On November 30, 2007, the Company entered into the Second Amended and Restated Credit Agreement with Bank of America (the Bank of America Credit Agreement). The Bank of America Credit Agreement is a $50.6 million credit facility with a $10.6 million term loan (Term Loan) and a $40.0 million revolving loan (Revolving Credit Facility), including a $10.0 million sub-limit for letters of credit. The Bank of America Credit Agreement replaces the previous credit agreement (Previous Credit Agreement) as originally entered into on April 20, 2004. The Bank of America Credit Agreement is an asset-based lending agreement and only involves one bank compared to a syndicate of four banks under the Previous Credit Agreement.

The Revolving Credit Facility has an expiration date of November 30, 2010 and its borrowing base is determined by eligible inventory and accounts receivable, amounting to $21.0 million at December 31, 2008. The Company s borrowing base under the Bank of America Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. All extensions of credit under the Bank of America Credit Agreement are collateralized by a first priority security interest in and lien upon the capital stock of each material domestic subsidiary of the Company (65% of the capital stock of certain foreign subsidiaries of the Company), and all present and future assets and properties of the Company.

The Company s Term Loan balance immediately prior to the Bank of America Credit Agreement was $10.0 million. The annual amortization on the new Term Loan, paid quarterly, is $1.5 million with final payment due November 30, 2010. The Term Loan is collateralized by the Company s property, plant and equipment.

The Bank of America Credit Agreement requires the Company to maintain a minimum level of availability such that its eligible collateral must exceed the sum of its outstanding borrowings under the Revolving Credit Facility and outstanding standby and commercial letters of credit by at least $5.0 million. Vendors, financial

Table of Contents

institutions and other parties with whom the Company conducts business may require letters of credit in the future that either (1) do not exist today or (2) would be at higher amounts than those that exist today. Currently, the Company s largest letters of credit relate to its casualty insurance programs. At December 31, 2008, total outstanding letters of credit were $4.0 million. In addition, the Bank of America Credit Agreement prohibits the Company from paying dividends on its securities, other than dividends paid solely in securities.

Borrowings under the Bank of America Credit Agreement bear interest, at the Company s option, at either a rate equal to the bank s base rate or LIBOR plus a margin based on levels of borrowing availability. Interest rate margins for the Revolving Credit Facility under the applicable LIBOR option will range from 2.00% to 2.50%, or under the applicable prime option will range from 0.25% to 0.75% on borrowing availability levels of $20.0 million to less than $10.0 million, respectively. For the Term Loan, interest rate margins under the applicable LIBOR option will range from 2.25% to 2.75%, or under the applicable prime option will range from 0.50% to 1.00%. Financial covenants such as minimum fixed charge coverage and leverage ratios are not included in the Bank of America Credit Agreement.

If the Company is unable to comply with the terms of the agreement, it could seek to obtain an amendment to the Bank of America Credit Agreement and pursue increased liquidity through additional debt financing and/or the sale of assets. However, the Company may not be able to obtain further amendments from the lender or secure additional debt financing or liquidity through the sale of assets on favorable terms or at all. However, the Company believes that it will be able to comply with all covenants and borrowing availability requirements throughout 2009.

All of the debt under the Bank of America Credit Agreement is re-priced to current rates at frequent intervals. Therefore, its fair value approximates its carrying value at December 31, 2008. For the years ended December 31, 2008, 2007 and 2006, the Company had amortization of debt issuance costs, included within interest expense, of $0.4 million, $2.0 million and $1.2 million, respectively. Included in amortization of debt issuance costs for the year ended December 31, 2007 is approximately $0.6 million of debt issuance costs written off due to the reduction in the number of banks included in the Bank of America Credit Agreement, and $0.3 million written off due to the reduction in the Revolving Credit Facility on March 8, 2007. The Company incurred $0.2 million and $0.3 million associated with entering into the Bank of America Credit Agreement and amending the Previous Credit Agreement, respectively, as discussed above, for the years ended December 31, 2007 and 2006.

The Revolving Credit Facility under the Bank of America Credit Agreement requires lockbox agreements which provide 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 Bank of America Credit Agreement, result in the Revolving Credit Facility being classified as a current liability, per guidance in the Emerging Issues Task Force Issue No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that Include Both a Subjective Acceleration Clause and a Lock-Box Arrangement*. The Company does not expect to repay, or be required to repay, within one year, the balance of the Revolving Credit Facility, which has a final expiration date of November 30, 2010. The MAE clause, which is a fairly common 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. The classification of the Revolving Credit Facility as a current liability is a result only of the combination of the lockbox agreements and the MAE clause.

Cash Flow

Cash used in operating activities before changes in operating assets and discontinued operations was $9.9 million in 2008 as compared to $2.0 million in 2007. This increase was a result of a higher loss from continuing operations in 2008 than 2007, as well as the fact that our net loss in 2007 included more non-cash items, such as the write-off of debt issuance costs and the write-off of assets due to lease termination, than were included in net loss for 2008. Changes in operating assets and liabilities provided $4.6 million of cash in 2008 compared to $8.2 million in cash

used for 2007, primarily a result of lower accounts receivable and inventory balances year over year. By the end of 2008, we were turning our inventory at 6.8 times per year as compared to 7.1 times per year in 2007. Cash of $0.5 million and $1.1 million was used in 2008 and 2007, respectively, to satisfy severance, restructuring and related obligations.

Table of Contents

Capital expenditures from continuing operations totaled $7.5 million in 2008 as compared to $4.4 million in 2007. The increase in capital spending was from rebuilding our manufacturing lines at our Bridgeton, Missouri location. Cash provided by discontinued operations in 2008 consisted of $9.2 million in proceeds from receivables from the 2007 sales of the Woods US, Woods Canada and CML business units. Cash provided by discontinued operations in 2007 consisted of proceeds from the sales of the Woods US, Woods Canada and CML business units, the real estate assets of the CEL business unit, and our equity investment in Sahlman for a combined $55.6 million, excluding any amounts still held in escrow or outstanding as of December 31, 2007. These proceeds from dispositions were reduced by capital expenditures of $0.4 million made by these businesses.

Cash flows from financing activities in 2008 reflected the increase in our debt levels as cash used in operations and capital expenditures exceeded proceeds from businesses sold in 2007. In 2007, the reduction of our debt obligations was a result of proceeds from the sale of businesses exceeding the requirements from operating and investing activities. Overall, debt increased $4.1 million during 2008 as compared to a decrease of $43.4 million during 2007. Direct debt costs, primarily associated with the debt modifications and refinance transactions, totaled $0.2 million in 2007.

Contractual Obligations

We have contractual obligations associated with our debt, operating lease agreements, severance and restructuring, and other obligations. Our obligations as of December 31, 2008, are summarized below (amounts in thousands):

Contractual Cash Obligations	Total	Due in less than 1 Year	Due in 1-3 Years	Due in 3-5 Years	Due after 5 Years
Revolving credit facility [a]	$ 9,118	$ 9,118	$	$	$
Term loan	8,428	1,500	6,928		
Interest on debt [b]	1,118	609	509		
Operating leases [c]	27,155	4,731	7,334	4,191	10,899
Severance and restructuring [c]	245	72	173		
Settlement payments [d]	5,500	1,500	3,600	400	
Postretirement benefits [e]	3,768	572	942	710	1,544
Total Contractual Obligations	$ 55,332	$ 18,102	$ 19,486	$ 5,301	$ 12,443

Other Commercial Commitments	Total	Due in less than 1 Year	Due in 1-3 Years	Due in 3-5 Years	Due after 5 Years
Commercial letters of credit	$ 130	$ 130	$	$	$
Stand-by letters of credit	3,855	3,855			
Total Commercial Commitments	$ 3,985	$ 3,985	$	$	$

[a]

As discussed in the Liquidity and Capital Resources section above and in Note 8 to the Consolidated Financial Statements in Part II, Item 8, the entire Revolving Credit Facility under the Bank of America Revolving Credit Agreement is classified as a current liability on the Consolidated Balance Sheets as a result of the combination in the Bank of America Credit Agreement of (i) lockbox agreements on Katy s depository bank accounts, and (ii) a subjective Material Adverse Effect (MAE) clause. The Revolving Credit Facility expires in November 2010.

[b] Represents interest on the Revolving Credit Facility and Term Loan of the Bank of America Credit Agreement. Amounts assume interest accrues at the rate in effect as of December 31, 2008. The amount also assumes the principal balance of the Revolving Credit Facility remains constant through its expiration date of November 30, 2010 and the principal balance of the Term Loan amortizes in accordance with the terms of the Bank of America Credit Agreement. Due to the variable nature of the Bank of America Credit Agreement, actual interest rates

Table of Contents

could differ from the assumptions above. In addition, actual borrowing levels could differ from the assumptions above due to liquidity needs.

[c] Future non-cancelable lease rentals are included in the line entitled Operating leases, which represent obligations associated with restructuring activities. The line entitled Severance and restructuring represents the remaining obligations associated with restructuring activities, net of the future non-cancelable lease rentals. The Consolidated Balance Sheets at December 31, 2008 and 2007 include $0.6 million and $1.5 million, respectively, in discounted liabilities associated with non-cancelable operating lease rentals, net of estimated sub-lease revenues, related to facilities that have been abandoned as a result of restructuring and consolidation activities.

[d] Amount owed to PUSA as a result of the settlement agreement, discussed in Note 17 to the Consolidated Financial Statements. $1.5 million of this obligation is classified in the Consolidated Balance Sheets as an accrued expense in current liabilities, while the remainder is included in other liabilities.

[e] Benefits consist of postretirement medical obligations to retirees of former subsidiaries of Katy, as well as deferred compensation plan liabilities to former officers of the Company, discussed in Note 10 to the Consolidated Financial Statements in Part II, Item 8.

The amounts presented in the table above may not necessarily reflect the actual future cash funding requirements of the Company because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with the Company s unrecognized tax benefits at December 31, 2008, the Company is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $0.4 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See Note 13 to the Consolidated Financial Statements in Part II, Item 8 for a discussion on income taxes.

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. We paid $0.5 million annually for such services in 2008, 2007 and 2006, which is included as a component of selling, general and administrative expense. We expect to pay $0.5 million annually in future years.

SEVERANCE, RESTRUCTURING AND RELATED CHARGES

Over the past several years, the Company has initiated several cost reduction and facility consolidation initiatives, resulting in severance, restructuring and related charges. Key initiatives were the consolidation of the St. Louis, Missouri manufacturing/distribution facilities, the consolidation of the Glit facilities and the relocation of our Corporate office. These initiatives resulted from the on-going strategic reassessment of the Company s various businesses as well as the markets in which they operate.

A summary of charges (reductions) by major initiative is as follows (amounts in thousands):

	2008	2007	2006

Consolidation of Glit facilities	$ (410)	$ 1,699	$ 299
Consolidation of St. Louis manufacturing/distribution facilities	50	882	(499)
Corporate office relocation			217
Total severance, restructuring and related charges	$ (360)	$ 2,581	$ 17

Table of Contents

A rollforward of all restructuring reserves since December 31, 2006 is as follows (amounts in thousands):

	Total	One-time Termination Benefits [a]	Contract Termination Costs [b]	Other [c]
Restructuring liabilities at December 31, 2006	$ 470	$	$ 470	$
Additions	2,656	151	2,332	173
Reductions	(75)		(75)	
Payments	(909)	(151)	(585)	(173)
Other	(689)		(689)	
Restructuring liabilities at December 31, 2007	$ 1,453	$	$ 1,453	$
Additions	50		50	
Payments	(524)		(524)	
Other	(410)		(410)	
Restructuring liabilities at December 31, 2008	$ 569	$	$ 569	$

[a] Includes severance, benefits, and other employee-related costs associated with the employee terminations.

[b] Includes charges related to non-cancelable lease liabilities for abandoned facilities, net of potential sub-lease revenue. Total maximum potential amount of lease loss, excluding any sublease rentals, is $1.5 million as of December 31, 2008. The Company has included $0.9 million as an offset for sublease rentals.

[c] Includes charges associated with equipment removal and cleanup of abandoned facilities.

The Company does not anticipate any further significant severance, restructuring and other related charges in the upcoming year.

Since 2001, the Company has been focused on a number of restructuring and cost reduction initiatives, resulting in severance, restructuring and related charges. With these changes, we anticipated cost savings from reduced headcount, higher utilized facilities and divested non-core operations. However, in some cases anticipated cost savings have not been realized due to such factors as material price increases, competitive markets and inefficiencies incurred from consolidation of facilities. See Note 18 to the Consolidated Financial Statements in Part II, Item 8 for further discussion of severance, restructuring and related charges.

OUTLOOK FOR 2009

We experienced lower volume performance in the last quarter of 2008 in nearly all of the Maintenance Products Group business units due primarily to weakness in the cleaning products segments. In addition, the Company has experienced lower volumes from our Contico business unit, which sells primarily to mass merchant customers, due to our decision to exit certain unprofitable business lines, particularly in the face of rising resin costs. This lower volume has been partially offset in 2008 by the impact of price increases made over the past two years. Given the current economic environment, we believe the Company will not have volume improvements in most of our business units in 2009. In addition, we anticipate further volume reductions within our Contico business unit due to the reasons described above.

Cost of goods sold is subject to variability in the prices for certain raw materials, most significantly thermoplastic resins used in the manufacture of plastic products for the Continental, Container and Contico businesses. After a steady increase in 2007 and a very substantial increase in 2008, prices of plastic resins, such as polyethylene and polypropylene, began to decrease near the end of 2008, with stabilization during the first quarter of 2009. Management has observed that the prices of plastic resins are driven to an extent by prices for crude oil and natural gas, in addition to other factors specific to the supply and demand of the resins themselves. Prices for corrugated packaging material and other raw materials have also increased significantly over the past year. We have not employed an active hedging program related to our commodity price risk, but are employing other strategies for managing this risk, including contracting for a certain percentage of resin needs through supply agreements and opportunistic spot purchases. In a climate of rising raw material costs, we have experienced difficulty in raising prices to shift these higher costs to our customers, particularly to our mass merchant customers for our plastic

products. Our future earnings may be negatively impacted to the extent further increases in costs for raw materials cannot be recovered or offset through higher selling prices within a timely manner. We cannot predict the direction our raw material prices will take during 2009.

Over the past few years, the Glit business unit completed the consolidation of several manufacturing locations into its current facility in Wrens, Georgia. However, the Glit business unit continues to be challenged by lower volume levels, increased material costs, quality issues and overall productivity. The operating results of Glit will be highly dependent on the overall volume within the business unit and the unit s ability to improve productivity and execute on acceptable quality, shipping and production improvements.

Over the past few years, our management has been focused on a number of restructuring and cost reduction initiatives, including the consolidation of facilities, divestiture of non-core operations, selling general and administrative (SG&A) cost rationalization and organizational changes. We have and expect to continue to benefit from various profit enhancing strategies such as process improvements (including Lean Manufacturing and Six Sigma), value engineering products, improved sourcing/purchasing and lean administration.

SG&A expenses as a percentage of sales were higher in 2008 as compared to 2007. The percentage has increased primarily as a result of transitional costs associated with the replacement of our chief executive officer and higher expense under our self insurance programs. The Company will continue to evaluate on an on-going basis the possibility of further consolidation of administrative processes and other SG&A expenses in order to achieve cost improvements.

Interest rates dropped in 2008. Ultimately, we cannot predict the future levels of interest rates. Under the Bank of America Credit Agreement the Company s interest rates on all of our outstanding borrowings and letters of credit are lower as of December 31, 2008 than they were as of December 31, 2007.

Given our history of operating losses, along with guidance provided by the accounting literature covering accounting for income taxes, we are unable to conclude it is more likely than not that we will be able to generate future taxable income sufficient to realize the benefits of domestic deferred tax assets carried on our books. Therefore, a full valuation allowance on the net deferred tax asset position was recorded at December 31, 2008, and we do not expect to record the benefit of any deferred tax assets that may be generated in 2009. We will continue to record current expense, within continuing and discontinued operations, associated with foreign and state income taxes.

We expect our working capital levels to remain constant as a percentage of sales. However, inventory carrying values may be adversely affected by higher material costs. We expect to use cash flow in 2009 for capital expenditures and payments due under our Term Loan as well as the settlement of previously established restructuring accruals. These accruals relate to non-cancelable lease obligations for abandoned facilities. These accruals do not create incremental cash obligations in that we are obligated to make the associated payments whether we occupy the facilities or not. The amount we will ultimately pay out under these accruals is dependent on our ability to maintain our current sublet arrangements on a portion of the abandoned facilities.

The Company was in compliance with the covenants of the Bank of America Credit Agreement as of December 31, 2008. The Bank of America Credit Agreement requires the Company to maintain a minimum level of availability (eligible collateral base less outstanding borrowings and letters of credit) such that its eligible collateral must exceed the sum of its outstanding borrowings and letters of credit by at least $5.0 million.

If we are unable to comply with the terms of the Bank of America Credit Agreement, we could seek to obtain amendments and pursue increased liquidity through additional debt financing and/or the sale of assets. However, there can be no assurance that such financing could be obtained, especially given the current environment within the credit

markets. The Company believes that it will be able to comply with its covenants under the Bank of America Credit Agreement throughout 2009. In addition, we are continually evaluating alternatives relating to the sale of excess assets and divestitures of certain of our business units. Asset sales and business divestitures present opportunities to provide additional liquidity by de-leveraging our financial position. However, the Company may not be able to secure liquidity through the sale of assets on favorable terms or at all.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are more fully described in Note 3 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 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 sales 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 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.

Stock-based Compensation   On January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment* (SFAS No. 123R), using the modified prospective method. Under this method, compensation cost recognized during the years ended December 31, 2008 and 2007 includes: a) compensation cost for all stock options granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R amortized over the options vesting period and b) compensation cost for outstanding stock appreciation rights as of December 31, 2007 based on the December 31, 2007 fair value estimated in accordance with SFAS No. 123R. Compensation cost recognized during the year ended December 31, 2006 includes: a) compensation cost for all stock options granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R amortized over the options vesting period; b) compensation cost for stock appreciation rights granted prior to, but vested as of January 1, 2006, based on the January 1, 2006 fair value estimated in accordance with SFAS No. 123R; and c) compensation cost for outstanding stock appreciation rights as of December 31, 2006 based on the December 31, 2006 fair value estimated in accordance with SFAS No. 123R.

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 based primarily on our estimated forecast of product demand and production requirements for the next twelve months. Our accounting policies state that operating divisions 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 $1.3 million and $1.4 million, respectively, as of December 31, 2008 and 2007.

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. In accordance with SFAS No. 142, *Goodwill and Intangible Assets,* the fair value of each reporting unit that carries goodwill is determined annually, or as indicators of impairment are identified, and the fair value is compared to the carrying value of the reporting unit. 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 future impairments of goodwill determined in accordance with SFAS No. 142 would be recorded as a component of income from continuing operations.

We review our long-lived assets for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* periodically and/or whenever triggering events indicate that an impairment may have occurred. We monitor our operations to look 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, SFAS No. 144 indicates that disposal groups should be reported as discontinued operations on the consolidated financial statements if cash flows of the disposal group are separately identifiable.

Deferred 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, 2008, we had a valuation allowance of $74.0 million. Except for certain of our foreign subsidiaries, given the negative evidence provided by our history of operating losses, and considering guidance provided by SFAS No. 109, *Accounting for Income Taxes*, we were unable to conclude that it is more likely that 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 apply the interpretations prescribed by FIN 48 in accounting for the uncertainty in income taxes recognized in our Consolidated Financial Statements. FIN 48 provides guidance for the recognition and measurement in financial statements for uncertain tax positions taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 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 Product Liabilities We make payments for workers compensation and product liability claims generally through the use of a third party claims administrator. We have purchased insurance coverage for large claims over our 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 product liability claims as of December 31, 2008 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 four years. See Note 18 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, (1) the closure or consolidation of manufacturing, distribution and office facilities, and (2) 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 sublease revenue; and other costs associated with the consolidation of administrative and operational functions and consultants working on sourcing and other manufacturing and production efficiency initiatives. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, we recognize costs (including costs for one-time termination benefits) associated with exit or disposal activities as they are incurred. However, charges related to non-cancelable leases require estimates of sublease income and adjustments to these liabilities are possible in the future depending on the accuracy of the sublease assumptions made.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 3 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our interest obligations on outstanding debt at December 31, 2008 were indexed from short-term LIBOR. Our exposure to market risk associated with changes in interest rates relates primarily to our debt obligations and could be material to our financial position or results of operations. A 1% increase in the interest rate of the Bank of America Credit Agreement would increase our annual interest expense by approximately $0.2 million. See Note 8 to the Consolidated Financial Statements in Part II, Item 8.

Foreign Exchange Risk

We are exposed to fluctuations in the Canadian dollar. In addition, we make significant U.S. dollar purchases from suppliers in Honduras, Pakistan, China, Taiwan, and the Philippines. An adverse change in foreign currency exchange rates of these countries could result in an increase in the cost of purchases. We do not currently hedge foreign currency transaction or translation exposures. Our net investment in foreign subsidiaries translated into U.S. dollars at December 31, 2008 is $2.9 million. A 10% change in foreign currency exchange rates would amount to $0.3 million change in our net investment in foreign subsidiaries at December 31, 2008.

Commodity Price Risk

We have not employed an active hedging program related to our commodity price risk, but are employing other strategies for managing this risk, including contracting for a certain percentage of resin needs through supply agreements and opportunistic spot purchases. See Part I Item 1 Raw Materials and Part II Item 7 Outlook for 2009 for a further discussion of our raw materials.

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 sheet of Katy Industries, Inc. and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for the year ended December 31, 2008. 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 audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Katy Industries, Inc. and subsidiaries as of December 31, 2008, and the results of its operations and its cash flows for the year ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

St. Louis, Missouri
March 31, 2009

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders equity and cash flows present fairly, in all material respects, the financial position of Katy Industries, Inc. and its subsidiaries at December 31, 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions as of January 1, 2007.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for stock based compensation as of January 1, 2006.

As discussed in Note 10 to the consolidated financial statements, the Company changed the manner in which it accounts for pensions and other post-retirement plans for the year ended December 31, 2006.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
March 14, 2008

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 and 2007
(Amounts in Thousands)

ASSETS

	2008	2007
CURRENT ASSETS:		
Cash	$ 683	$ 2,015
Trade accounts receivable, net of allowances of $287 and $261	13,773	18,077
Inventories, net	19,911	26,160
Receivable from disposition		6,799
Other current assets	3,516	2,520
Total current assets	37,883	55,571
OTHER ASSETS:		
Goodwill	665	665
Intangibles, net	4,455	4,853
Other	1,809	3,470
Total other assets	6,929	8,988
PROPERTY AND EQUIPMENT		
Land and improvements	336	336
Buildings and improvements	8,686	9,666
Machinery and equipment	92,693	96,650
	101,715	106,652
Less Accumulated depreciation	(69,232)	(72,647)
Property and equipment, net	32,483	34,005
Total assets	$ 77,295	$ 98,564

See Notes to Consolidated Financial Statements.

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 and 2007
(Amounts in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS EQUITY

	2008	2007
CURRENT LIABILITIES:		
Accounts payable	$ 10,283	$ 10,452
Book overdraft	2,289	4,543
Accrued compensation	3,015	2,629
Accrued expenses	14,266	22,325
Current maturities, long-term debt	1,500	1,500
Revolving credit agreement	9,118	2,853
Total current liabilities	40,471	44,302
LONG-TERM DEBT, less current maturities	6,928	9,100
OTHER LIABILITIES	10,603	8,706
Total liabilities	58,002	62,108
COMMITMENTS AND CONTINGENCIES (Notes 17 and 20)		
STOCKHOLDERS 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	27,248	27,338
Accumulated other comprehensive loss	(1,742)	(1,112)
Accumulated deficit	(102,397)	(85,915)
Treasury stock, at cost, 1,871,128 shares	(21,894)	(21,933)
Total stockholders equity	19,293	36,456
Total liabilities and stockholders equity	$ 77,295	$ 98,564

See Notes to Consolidated Financial Statements.

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006
(Amounts in Thousands, Except Per Share Data)

	2008	2007	2006
Net sales	$ 167,802	$ 187,771	$ 192,416
Cost of goods sold	155,678	167,517	167,347
Gross profit	12,124	20,254	25,069
Selling, general and administrative expenses	28,944	25,985	30,450
Severance, restructuring and related charges	(360)	2,581	17
Loss on sale or disposal of assets	995	2,434	412
Operating loss	(17,455)	(10,746)	(5,810)
Equity in income of equity method investment		783	
Gain on SESCO joint venture transaction			563
Interest expense	(1,686)	(4,565)	(4,221)
Other, net	467	(72)	278
Loss from continuing operations before income tax (provision) benefit	(18,674)	(14,600)	(9,190)
Income tax (provision) benefit from continuing operations	(127)	719	529
Loss from continuing operations	(18,801)	(13,881)	(8,661)
Income from operations of discontinued businesses (net of tax)	584	2,259	2,443
Gain (loss) on sale of discontinued businesses (net of tax)	1,735	10,121	(5,405)
Loss before cumulative effect of a change in accounting principle	(16,482)	(1,501)	(11,623)
Cumulative effect of a change in accounting principle (net of tax)			(756)
Net loss	$ (16,482)	$ (1,501)	$ (12,379)
Loss per share of common stock Basic and diluted			
Loss from continuing operations	$ (2.36)	$ (1.75)	$ (1.09)
Discontinued operations	0.29	1.56	(0.37)
Cumulative effect of a change in accounting principle			(0.09)
Net loss	$ (2.07)	$ (0.19)	$ (1.55)

See Notes to Consolidated Financial Statements.

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006
(Amounts in Thousands, Except Share Data)

	Convertible Preferred Stock		Common Stock			Accumulated Other				
	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid-in Capital	Compre- hensive Income/(Loss)	Accumulated Deficit	Treasury Stock	Compre- hensive Loss	S
uary 1,	1,131,551	$ 108,256	9,822,204	$ 9,822	$ 27,067	$ 3,158	$ (71,055)	$ (22,544)		$
							(12,379)		$ (12,379)	
rency						686			686	
swap						22			22	
sive loss									$ (11,671)	
						(1,624)				
treasury								(111)		
n					(378)			525		
ensation					587					
			100		(156)			156		
1, 2006	1,131,551	$ 108,256	9,822,304	$ 9,822	$ 27,120	$ 2,242	$ (83,434)	$ (21,974)		$
							(1,501)		$ (1,501)	
rency						(4,551)			(4,551)	
swap						(76)			(76)	
other ent						1,273			1,273	
sive loss									$ (4,855)	
FIN 48							(980)			
treasury								(3)		
ensation					262					

					(44)			44		
1, 2007	1,131,551	$ 108,256	9,822,304	$ 9,822	$ 27,338	$ (1,112)	$ (85,915)	$ (21,933)		$
							(16,482)		$ (16,482)	
rency										
						(761)			(761)	
other ent										
						131			131	
sive loss									$ (17,112)	
ensation					(51)					
					(39)			39		
1, 2008	1,131,551	$ 108,256	9,822,304	$ 9,822	$ 27,248	$ (1,742)	$ (102,397)	$ (21,894)		$

See Notes to Consolidated Financial Statements.

36

Table of Contents

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006
(Amounts in Thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net loss	$ (16,482)	$ (1,501)	$ (12,379)
(Income) loss from discontinued operations	(2,319)	(12,380)	2,962
Loss from continuing operations	(18,801)	(13,881)	(9,417)
Cumulative effect of a change in accounting principle			756
Depreciation and amortization	8,259	7,294	7,628
Write-off and amortization of debt issuance costs	382	2,007	1,178
Write-off of assets due to lease termination		751	
Stock option (income) expense	(51)	262	587
Loss on sale or disposal of assets	995	2,434	412
Gain on litigation settlement	(723)		
Equity in income of equity method investment		(783)	
Deferred income taxes	48	(48)	14
	(9,891)	(1,964)	1,158
Changes in operating assets and liabilities:			
Accounts receivable	4,061	1,383	3,272
Inventories	5,738	(5,330)	7,045
Other assets	(1,095)	(220)	(283)
Accounts payable	53	60	(3,076)
Accrued expenses	(2,740)	(5,541)	(1,062)
Other	(1,378)	1,399	(4,236)
	4,639	(8,249)	1,660
Net cash (used in) provided by continuing operations	(5,252)	(10,213)	2,818
Net cash provided by (used in) discontinued operations	425	74	(75)
Net cash (used in) provided by operating activities	(4,827)	(10,139)	2,743
Cash flows from investing activities:			
Capital expenditures	(7,535)	(4,403)	(3,733)
Proceeds from sale of assets, net	159	246	289
Net cash used in continuing operations	(7,376)	(4,157)	(3,444)
Net cash provided by discontinued operations	9,169	55,195	3,738
Net cash provided by investing activities	1,793	51,038	294

Cash flows from financing activities:			
Net borrowings (repayments) on revolving loans	6,265	(41,026)	1,934
Decrease in book overdraft	(2,254)	(1,903)	(1,534)
Proceeds from term loans		573	1,364
Repayments of term loans	(2,172)	(2,965)	(4,086)
Direct costs associated with debt facilities		(236)	(312)
Repurchases of common stock		(3)	(111)
Proceeds from the exercise of stock options			147
Net cash provided by (used in) continuing operations	1,839	(45,560)	(2,598)
Net cash used in discontinued operations		(570)	(1,071)
Net cash provided by (used in) financing activities	1,839	(46,130)	(3,669)
Effect of exchange rate changes on cash	(137)	(146)	(397)
Net decrease in cash	(1,332)	(5,377)	(1,029)
Cash, beginning of period	2,015	7,392	8,421
Cash, end of period	$ 683	$ 2,015	$ 7,392

See Notes to Consolidated Financial Statements.

KATY INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2008 and 2007

Note 1. ORGANIZATION OF THE BUSINESS

Katy Industries, Inc. (Katy or the Company) was organized as a Delaware corporation in 1967. The Company is organized into one reporting segment: the Maintenance Products Group. The activities of the Maintenance Products Group include the manufacture, import and distribution of a variety of commercial cleaning supplies and storage products. Principal geographic markets are in the United States, Canada, and Europe and include the sanitary maintenance, foodservice, mass merchant retail and home improvement markets.

Note 2. RESTATEMENT OF PRIOR FINANCIAL INFORMATION

As a result of accounting errors in the Company s raw material inventory records, management and the Company s Audit Committee determined on August 6, 2007 that the Company s previously issued consolidated financial statements for the years ended December 31, 2006 and 2005 should no longer be relied upon. The Company s decision to restate its consolidated financial statements was based on facts obtained by management and the results of an independent investigation of the physical raw material inventory counting process at Continental Commercial Products, LLC (CCP). These procedures resulted in the identification of the overstatement of raw material inventory when completing the physical inventories. At the time of the physical inventories, the Company did not have sufficient controls in place to ensure that the accurate physical raw material inventory on hand was properly accounted for and reported in the proper period. The Company filed on August 17, 2007 an amended Annual Report on Form 10-K/A as of December 31, 2006 and an amended Quarterly Report on Form 10-Q/A as of March 31, 2007 in order to restate the consolidated financial statements. All amounts included in this Annual Report for the above periods properly reflect the restatement.

Note 3. 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 part of the continuous evaluation of its operations, the Company has acquired and disposed of certain of its operating units in recent years. Those which affected the Consolidated Financial Statements for the year ended December 31, 2008 are discussed in Note 6.

The Company previously owned 30,000 shares of common stock, a 45% interest, in Sahlman Holding Company, Inc. (Sahlman) that was accounted for under the equity method. The Company did not have significant influence over the operation. Sahlman is engaged in the business of shrimp farming in Nicaragua. As of December 31, 2008 and 2007, the Company had no investment in the business due to the sale of its shares to Sahlman as further described in Note 5.

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.

Reclassifications Certain reclassifications related to the balance sheet were made to prior year amounts in order to consistently present current year disclosure.

Revenue Recognition Revenue is recognized for all sales, including sales to agents and 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 collectibility 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 in accordance with Statement of Financial Accounting Standards (SFAS) No. 48, *Revenue Recognition When Right of Return Exists* (SFAS No. 48). The Company records discounts, customer allowances and cooperative advertising allowances in accordance with Emerging Issues Task Force (EITF) Issue No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer*, provisions for which are estimated on a periodic basis based on historical experience.

Advertising Costs Advertising costs are expensed as incurred. Advertising costs within continuing operations expensed in 2008, 2007 and 2006 were $0.9 million, $0.8 million and $0.8 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 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 90 days and over a specified amount for collectibility. 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.

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, 2008 and 2007, approximately 50% and 62%, 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 $4.3 million and $4.0 million at December 31, 2008 and 2007, respectively. The components of inventories are:

	December 31,	
	2008	2007
	(Amounts in Thousands)	
Raw materials	$ 12,764	$ 17,022
Work in process	718	763
Finished goods	12,054	13,762
Inventory reserves	(1,345)	(1,376)
LIFO reserve	(4,280)	(4,011)
	$ 19,911	$ 26,160

Goodwill Goodwill represents the excess purchase price over the fair value of net assets acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Intangible Assets* (SFAS No. 142), goodwill is not amortized, but is tested for impairment annually as of the end of the fourth quarter. The fair value of each reporting unit that carries goodwill is determined annually, or as indicators of impairment are identified, and the fair value is compared to the carrying value of the reporting unit. 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 reached. 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 determined in accordance with SFAS No. 142 are recorded as a component of income from continuing operations. See Note 4.

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); tooling (5 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 2008, 2007 and 2006 was $7.8 million, $6.8 million, and $7.1 million, respectively.

The Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143), on January 1, 2003. SFAS No. 143 requires that an asset retirement obligation associated with the retirement of a tangible long-lived asset be 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. In accordance with SFAS No. 143, the Company has recorded as of December 31, 2008 an asset of $0.2 million and related liability of $0.8 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 since December 31, 2006 is included in the table below (amounts in thousands):

SFAS No. 143 Obligation at December 31, 2006	$ 1,117
Accretion expense	42
Changes in estimates	(173)
Write-off from sale of discontinued businesses	(157)
SFAS No. 143 Obligation at December 31, 2007	829
Accretion expense	34
Changes in estimates	(36)
SFAS No. 143 Obligation at December 31, 2008	$ 827

On January 1, 2009, the Company entered into a new lease agreement for its largest facility in Bridgeton, Missouri. The new lease agreement utilizes significantly less square footage in order to improve the overhead cost structure. In 2008, the Company accelerated depreciation on certain assets at its Hazelwood, Missouri facility as a result of the planned shutdown of operations at this location. As a result of these two events, the Company incurred approximately $2.3 million in the non-cash write off of fixed assets in 2008, recognized as a $0.9 million loss on the sale or disposal of fixed assets and $0.8 million in accelerated depreciation. Additionally, the Company incurred approximately $0.6 million in the non-cash write off of abandoned leasehold improvements.

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. See Note 4.

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 13.

Foreign Currency Translation The results of the Company s foreign 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 income (loss). The Company recorded (losses) gains on foreign exchange transactions from continuing operations (included in Other,

net in the Consolidated Statements of Operations) of $(0.2) million, $38,000, and $0.3 million in 2008, 2007 and 2006, respectively. Cumulative foreign currency translation losses included in accumulated other comprehensive loss at December 31, 2008 and 2007 were $0.8 million and $86,000, respectively.

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 On January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment* (SFAS No. 123R) using the modified prospective method. Under this method, compensation cost recognized during the years ended December 31, 2008 and 2007 includes: a) compensation cost for all stock options granted prior to, but not yet vested as of January 1, 2006, and granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R amortized over the options vesting period and b) compensation cost for outstanding stock appreciation rights (SARs) as of December 31, 2008 and 2007 based on the December 31 fair value estimated in accordance with SFAS No. 123R. Compensation cost recognized during the year ended December 31, 2006 includes: a) compensation cost for all stock options granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R amortized over the options vesting period; b) compensation cost for stock appreciation rights granted prior to, but vested as of January 1, 2006, based on the January 1, 2006 fair value estimated in accordance with SFAS No. 123R; and c) compensation cost for outstanding stock appreciation rights as of December 31, 2006 based on the December 31, 2006 fair value estimated in accordance with SFAS No. 123R.

The following table shows total compensation expense (see Note 12 for descriptions of Stock Incentive Plans) included in the Consolidated Statements of Operations for the years ended December 31 (amounts in thousands):

	2008	2007	2006
Recorded in selling, general and administrative expense:			
Stock option (income) expense	$ (51)	$ 262	$ 587
Stock appreciation right (income) expense	(135)	8	(189)
Recorded in cumulative effect of a change in accounting principle:			
Stock appreciation right expense			756
	$ (186)	$ 270	$ 1,154

For the year ended December 31, 2008, stock option income resulted from the reversal of compensation expense recognized on the forfeiture and subsequent cancellation of unvested stock options previously held by the Company s former President and Chief Executive Officer.

The cumulative effect of a change in accounting principle reflects the compensation cost for SARs granted prior to, but vested as of January 1, 2006, based on the January 1, 2006 fair value. Prior to the effective date, no compensation cost was accrued associated with SARs as all of these stock awards were out of the money. As a result of adopting SFAS No. 123R on January 1, 2006, the Company s net loss for the year ended December 31, 2006 was approximately $1.2 million higher than had it continued to account for stock-based employee compensation under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). Basic and diluted

net loss per share for the year ended December 31, 2006 would have been $1.41 had the Company not adopted SFAS No. 123R (which is a non-GAAP measurement), compared to reported basic and diluted net loss per share of $1.55. For the year ended December 31, 2006, the adoption of SFAS No. 123R had approximately a $0.6 million positive impact on cash flows from operations with the recognition of a liability for the outstanding and vested stock appreciation rights. The adoption of SFAS No. 123R had no impact on cash flows from investing or financing.

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, as allowed by Staff Accounting Bulletin (SAB) No. 107, *Share-Based*

Payment, 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 rates with issues with a remaining term equal in term 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 years ended December 31, 2007 or 2006. The weighted-average grant-date fair value of options granted during fiscal 2008 was $0.90. The assumptions for expected term, volatility and risk-free rate for stock options granted during the year ended December 31, 2008 are presented in the table below.

Expected term (years)	5.5	6.6
Volatility	82.2%	112.9%
Risk-free interest rate	2.9%	3.4%

The fair value of stock appreciation rights, a liability award, was estimated at the effective date of SFAS No. 123R, and at December 31, 2008, 2007 and 2006, 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 rates with issues with a remaining term equal in term 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,					
	2008		2007		2006	
Expected term (years)	2.4	4.7	3.0	4.7	3.0	5.5
Volatility	121.3%	161.5%	85.4%	97.1%	52.6%	56.5%
Risk-free interest rate	0.9%	1.5%	3.1%	3.3%	4.7%	

Derivative Financial Instruments Effective August 17, 2005, the Company entered into an interest rate swap agreement designed to limit exposure to increasing interest rates on its floating rate indebtedness. The differential to be paid or received was recognized as an adjustment of interest expense related to the debt upon settlement. In accordance with the provisions of SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities* (SFAS No. 133), the Company is required to recognize all derivatives, such as interest rate swaps, on its balance sheet at fair value. As the derivative instrument held by the Company was classified as a hedge under SFAS No. 133, changes in the fair value of the derivative were offset against the change in fair value of the hedged liability through earnings, or recognized in other comprehensive income until the hedged item was recognized in earnings. Hedge ineffectiveness associated with the swap was reported by the Company in interest expense.

The agreement had an effective date of August 17, 2005 and a termination date of August 17, 2007 with a notional amount of $25.0 million in the first year declining to $15.0 million in the second year. The Company hedged its variable LIBOR-based interest rate for a fixed interest rate of 4.49% for the term of the swap agreement to protect the Company from potential interest rate increases. The Company designated its benchmark variable LIBOR-based interest rate on a portion of the Bank of America Credit Agreement as a hedged item under a cash flow hedge. In accordance with SFAS No. 133, the Company recorded changes in fair market value of the derivative in other

comprehensive loss. The Company reported insignificant losses for 2007 and 2006 as a result of hedge ineffectiveness.

Recently Adopted Accounting Standards In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 became effective in November 2008. The adoption of SFAS No. 162 did not have a material impact on the Company s consolidated financial statements.

Table of Contents

Recently Issued Accounting Standards   In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (c) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2009.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. This standard does not require any new fair value measurements but provides guidance in determining fair value measurements presently used in the preparation of financial statements. In October 2008, the FASB issued FASB Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. For the Company, SFAS No. 157 was originally effective January 1, 2008; however, the effective date of SFAS No. 157 was deferred for one year and is effective for the Company January 1, 2009. The Company s adoption of SFAS No. 157 is not expected to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 requires the recognition of a noncontrolling interest, or minority interest, as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. For the Company, SFAS No. 160 is effective January 1, 2009. The Company s adoption of SFAS No. 160 is not expected to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of the derivative instruments on an entity s financial position, operating results and cash flows. For the Company, SFAS No. 161 is effective January 1, 2009. The Company s adoption of SFAS No. 161 is not expected to have a material impact on the Company s consolidated financial statements as its requirements impact financial statement disclosure only.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. For the Company, FSP No. 142-3 is effective January 1, 2009. The Company s adoption of FSP No. 142-3 is not expected to have a material impact on its consolidated financial statements.

In December 2008, the FASB issued FSP No. 132R-1 (FSP No. 132R-1), which requires companies to disclose information about fair value measurements of retirement plans that would be similar to the disclosures about fair value measurements required by SFAS No. 157. The provisions of FSP No. 132R-1 are effective for fiscal years ending after December 15, 2009. FSP No. 132R-1 is not expected to have a material impact on the Company s consolidated financial statements, as its requirements impact financial statement disclosures only.

Note 4. GOODWILL AND INTANGIBLE ASSETS

Under SFAS No. 142, goodwill and other intangible assets are reviewed for impairment at least annually and if a triggering event were to occur in an interim period. The Company performed its annual goodwill impairment test

Table of Contents

at the end of the fourth quarters of fiscal 2008, 2007 and 2006 which resulted in no indication of impairment. Following is detailed information regarding the Company s intangible assets (amounts in thousands):

	December 31, 2008			December 31, 2007		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Patents	$ 1,118	$ (832)	$ 286	$ 1,031	$ (734)	$ 297
Customer lists	10,231	(8,406)	1,825	10,231	(8,240)	1,991
Tradenames	5,054	(2,710)	2,344	5,054	(2,489)	2,565
Other				441	(441)	
Total	$ 16,403	$ (11,948)	$ 4,455	$ 16,757	$ (11,904)	$ 4,853

The Company recorded amortization expense on intangible assets from continuing operations of $0.5 million, $0.5 million and $0.6 million in 2008, 2007 and 2006, respectively. Accumulated amortization for the year ended December 31, 2007 includes a write-off of other intangible assets for approximately $0.4 million associated with the impairment of the Washington, Georgia leased facility. Estimated aggregate future amortization expense related to intangible assets is as follows (amounts in thousands):

2009	$ 465
2010	460
2011	433
2012	408
2013	387
Thereafter	2,302