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KATY INDUSTRIES INC  
Form DEF 14A  
April 28, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) of the Securities Exchange Act Of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to ss. 240.14a-12

KATY INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

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and the date of its filing.

- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

KATY INDUSTRIES, INC.  
765 Straits Turnpike  
Middlebury, Connecticut 06762  
(203) 598-0397

April 28, 2005

Dear Stockholders:

You are cordially invited to attend the 2005 annual meeting of stockholders of Katy Industries, Inc. (the "Company" or "Katy"), which will be held at 10:00 a.m. (local time) on Thursday, May 26, 2005, at the principal corporate offices of Katy, located at 765 Straits Turnpike, Suite 2000, Middlebury, Connecticut.

The principal business of the annual meeting will be (i) the election of our Class II directors, (ii) the ratification of the appointment by the Company's Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005, and (iii) the consideration of a stockholder proposal, if it is properly presented at the meeting. We will also review our results for the past fiscal year and report on significant aspects of our operations during the first quarter of 2005.

It is important that your shares be represented at the annual meeting. Whether or not you plan to attend the annual meeting, we encourage you to vote by signing and returning the enclosed proxy card so that your shares will be voted at the annual meeting. If you decide to attend the annual meeting, you may revoke your proxy and personally cast your votes.

Thank you, and we look forward to seeing you at the annual meeting or receiving your proxy vote.

Sincerely yours,

/s/ William F. Andrews  
William F. Andrews  
Chairman of the Board

KATY INDUSTRIES, INC.  
765 Straits Turnpike  
Middlebury, Connecticut 06762  
(203) 598-0397

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Katy Industries, Inc.:

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We are holding an annual meeting of stockholders of Katy Industries, Inc. on May 26, 2005 at 10:00 a.m., local time. The meeting will be held at the principal corporate offices of Katy, located at 765 Straits Turnpike, Suite 2000, Middlebury, Connecticut. At the meeting, you will be asked to vote on the following:

1. The election of five Class II members of the Board of Directors to serve for a term of two years;
2. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005;
3. A stockholder proposal, if the proposal is properly presented at the annual meeting; and
4. The transaction of other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The Proxy Statement that we are delivering with this Notice contains important information concerning the proposals to be considered at the annual meeting. You will be entitled to vote at the annual meeting if you were a stockholder of Katy at the close of business on April 13, 2005.

By Order of the Board of Directors

/s/ Amir Rosenthal  
Amir Rosenthal  
Secretary

Middlebury, Connecticut  
April 28, 2005

YOUR VOTE AT THE ANNUAL MEETING IS IMPORTANT.

PLEASE INDICATE YOUR VOTE ON THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE AS SOON AS POSSIBLE, EVEN IF YOU PLAN TO ATTEND THE MEETING.

IF YOU ATTEND THE MEETING, YOU WILL BE ABLE TO REVOKE YOUR PROXY AND VOTE IN PERSON.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

THE ANNUAL MEETING

The annual meeting will be held on May 26, 2005 at the principal corporate offices of Katy, located at 765 Straits Turnpike, Suite 2000, Middlebury, Connecticut, at 10:00 a.m., local time.

THIS PROXY SOLICITATION

We are sending you this Proxy Statement because our Board of Directors is seeking your proxy to vote your shares of common stock at the annual meeting. This Proxy Statement includes information that we are required to provide to you under the rules of the Securities and Exchange Commission and is intended to assist you in voting your shares. On or about April 28, 2005, we will begin mailing information to all people who, according to our stockholder records,

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owned shares of our common stock at the close of business on April 13, 2005. As of April 13, 2005, there were 7,945,377 shares of our common stock outstanding.

Katy will pay the cost of requesting these proxies. Katy's directors, officers and employees may request proxies in person or by telephone, mail, facsimile or letter.

### VOTING YOUR SHARES

You are entitled to one vote at the annual meeting for each share of Katy's common stock that you owned of record at the close of business on April 13, 2005. The number of shares you own (and may vote) is listed on the enclosed proxy card.

You may vote your shares of common stock at the annual meeting in person or by proxy. To vote in person, you must attend the annual meeting and obtain and submit a ballot. We will give you a ballot at the annual meeting. To vote by proxy, you must complete and return the enclosed proxy card. By completing and returning the proxy card, you will be directing the persons designated on the proxy card to vote your shares at the annual meeting in accordance with the instructions you give on the proxy card.

Your proxy card will be valid only if you sign, date and return it before the annual meeting. IF YOU COMPLETE THE PROXY CARD EXCEPT FOR THE VOTING INSTRUCTIONS, THEN YOUR SHARES WILL BE VOTED IN ACCORDANCE WITH THE BOARD OF DIRECTORS RECOMMENDATIONS. You may revoke your proxy at any time before it is voted by any of the following means:

- Notifying the Secretary of Katy in writing addressed to our principal corporate offices that you wish to revoke your proxy.
- Submitting a proxy dated later than your original proxy.
- Attending the annual meeting and voting. Merely attending the annual meeting will not by itself revoke a proxy; you must vote your shares of common stock at the annual meeting to revoke the proxy.

The Board of Directors does not expect any matter other than the proposals discussed in this Proxy Statement to be presented at the annual meeting. However, if any other matter properly comes before the annual meeting, your proxies will act on such matter in their discretion.

### QUORUM AND VOTES REQUIRED FOR APPROVAL

The presence in person or by proxy of holders of a majority of the outstanding shares of common stock will constitute a quorum for the annual meeting. For purposes of the quorum and the discussion below regarding the vote necessary to take stockholder action, the stockholders who are present at the annual meeting in person or by proxy and who abstain are considered stockholders who are present and entitled to vote and they count toward the quorum. Abstentions and shares of record held by a broker or its nominee that are voted on any matter are included in determining whether a quorum is present. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

Each share of common stock is entitled to one vote on each matter to come before the annual meeting. With regard to the election of directors, you may vote for a candidate or withhold your vote. If a quorum is present, directors will be elected by a plurality of the votes cast for the election of directors. "Plurality" means that the nominees who receive the largest number of votes cast

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will be elected as directors, up to the maximum number of directors to be elected at the annual meeting. Consequently, any shares not voted (whether by abstention or withholding authority) will have no impact on the election of directors except to the extent the failure to vote for one candidate results in another candidate receiving a larger number of votes.

If a quorum is present, the approval of Proposals 2 and 3 require the affirmative vote of the holders of a majority of the common stock present, in person or by proxy, at the annual meeting. With respect to these matters, a stockholder may (i) vote "For" the matter, (ii) vote "Against" the matter, or (iii) "Abstain" from voting on the matter. A vote to abstain from voting on this proposal has the same effect as a vote against such matter.

Under rules of self-regulatory organizations governing brokers, brokers holding shares of record for customers generally are entitled to vote on routine matters without voting instructions from their customers. The election of directors and the ratification of the appointment of PricewaterhouseCoopers LLP are considered routine matters. On non-routine matters, such as the stockholder proposal included in this proxy statement, brokers must obtain voting instructions from customers. If a broker does not receive voting instructions from a customer on non-routine matters and accordingly does not vote on these matters, this is called a broker non-vote. Broker non-votes will be counted for the purposes of establishing a quorum to conduct business at the meeting and will have the effect of a vote "Against" the stockholder proposal.

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### PROPOSAL 1 - ELECTION OF DIRECTORS

#### NOMINEES

Katy's business is managed under the direction of its Board of Directors. There are currently nine directors, divided into two classes serving staggered terms. The classes are as nearly equal in number as possible with four Class I directors, elected to two-year terms at the 2004 annual meeting, and five Class II directors, elected to two-year terms at the 2003 annual meeting. Stockholders will elect five Class II directors at the annual meeting to serve for a two-year term ending at the time of the 2007 annual meeting.

Nominees for election whose terms will expire in 2007 (Class II):

Christopher W. Anderson  
William F. Andrews  
Samuel P. Frieder  
James A. Kohlberg  
Christopher Lacovara

All of the nominees are current directors of the Company and have indicated their willingness to serve as directors. The four Class I directors of Katy are: C. Michael Jacobi, Robert M. Baratta, Daniel B. Carroll, and Wallace E. Carroll, Jr. The Class I directors are not up for re-election at the annual meeting, as their terms expire at the time of the 2006 annual meeting.

For information concerning the nominees for director and the current directors, see the sections of this Proxy Statement entitled "Information Concerning Directors and Executive Officers," "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners."

#### REQUIRED VOTE

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Directors are elected by the affirmative vote of a plurality of the votes cast in the election.

### RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF PROPOSAL 1. IF ANY NOMINEE BECOMES UNAVAILABLE TO SERVE ON THE BOARD OF DIRECTORS FOR ANY REASON, YOUR PROXY WILL BE VOTED FOR A PERSON OR PERSONS TO BE SELECTED BY THE BOARD OF DIRECTORS. PROXIES CANNOT BE VOTED FOR A NUMBER OF NOMINEES GREATER THAN THE NUMBER OF CLASS II DIRECTORS.

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### INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

The following table shows information with respect to nominees for director, current directors, and executive officers of Katy:

#### Nominees - Class II Directors

The following table shows information about the nominees to Katy's Board of Directors who are currently Class II directors.

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Direct
Christopher W. Anderson	30	1998 to Present: Associate at Kohlberg & Co., L.L.C., a U.S. private equity firm	None
William F. Andrews	73	2004 to Present: Chairman of Singer Worldwide, a leading seller of consumer and artisan sewing machines 2001 to Present: Chairman of Katy 2001 to Present: Chairman of Allied Aerospace Industries, Inc., an aerospace and defense engineering firm and provider of comprehensive aerospace and defense products and services 2000 to Present: Chairman of Corrections Corp. of America, a private sector provider of detention and correction services 1998 to 2001: Chairman of Northwestern Steel & Wire Company, a manufacturer of steel rods and beams 1997 to Present: Consultant with Kohlberg & Co., L.L.C., a U.S. private equity firm 1995 to 2001: Chairman of Scovill Fasteners, a manufacturer of apparel and industrial fasteners	Black Box Corpora Correctio of Amer Trex Corp O'Charley
Samuel P. Frieder	40	1989 to Present: Principal of Kohlberg & Co., L.L.C., a U.S. private equity	Stanadyne Corpora

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firm

James A. Kohlberg	47	1987 to Present: Co-Founder and Managing Principal of Kohlberg & Co., L.L.C., a U.S. private equity firm	Stanadyne Corpora
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Name	Age	Principal Occupation and Business Experience During the Past Five Years	Ot Direct
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Christopher Lacovara	40	1988 to Present: Principal of Kohlberg & Co., L.L.C., a U.S private equity firm	Schawk, I

Class I Directors

The following directors were elected to two year terms at the 2004 annual meeting, and are not up for re-election at the 2005 annual meeting.

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Ot Direct
-----	-----	-----	-----
Robert M. Baratta	75	2001 to Present: Director of Katy 2001 (February) to 2001 (June): President and Chief Executive Officer of Katy 1999 to 2000 (June): Senior Vice President of Katy	None
Daniel B. Carroll	69	2003 to Present: Private Investor 1994 to Present: Partner of Newgrange L.P., a components supplier to the global footwear industry 1985 to Present: Member and Manager of ATP Manufacturing, LLC, a manufacturer of molded poly-urethane components 1985 to 2003: Vice President of ATP Manufacturing, LLC	None
Wallace E. Carroll, Jr.	67	1992 to Present: Chairman of CRL, Inc., a diversified holding company	None

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Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Direct
C. Michael Jacobi	63	2001 to Present: Chief Executive Officer, President, and a Director of Katy 2001 to Present: Chairman of Invisible Technologies, Inc., a privately held company engaged in the manufacturing and distribution of electronic products for the training, tracking and containment of sporting dogs and companion pets 1999 to 2001: Owner, Stable House Consulting 1999 to 2000: Chairman of Timex Watches Limited (India), a publicly held company headquartered in New Delhi, India 1999 to 2000: Chairman and Chief Executive Officer of Beepwear Paging Products, LLC, a company jointly owned by Timex Corporation and Motorola, Inc.	Correctional Institute of America Webster Financial Corporation

Daniel B. Carroll and Wallace E. Carroll, Jr. are first cousins.

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Executive Officers

Name	Age	Principal Occupation and Business Experience During the Past Five Years
David C. Cooksey	60	2001 to Present: Corporate Director of Accounting and Audit, Treasurer, Katy 1999 to Present: Chief Financial Officer of Continental Products, LLC, a wholly-owned subsidiary of Katy
Michael C. Paul	42	2003 to Present: Corporate Director of Financial Reporting, Treasurer, Katy 2002 to 2003: Director of Financial Systems and Compliance, Automotive Group, Inc., a national automotive retailer 2000 to 2002: Corporate Controller, Asbury Automotive Group 1999 to 2000: Assistant Controller, Crompton Corporation and marketer of specialty chemicals and polymer production equipment
David S. Rahilly	60	2002 to Present: President, Katy Consumer Products 2001 to 2002: President and General Manager, Woods Industries, a wholly-owned subsidiary of Katy 1998 to 2001: Principal and President of Stunt, L.L.C. and Stunt L.L.C., companies engaged in the import and distribution of



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Amir Rosenthal	44	2001 to Present: Vice President, Chief Financial Officer Counsel and Secretary, Katy 2000 to 2001: Chairman of Timex Watches Limited (India) held company headquartered in New Delhi, India 1997 to 2001: Treasurer, Timex Corporation
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Officers hold office until their successors are elected or appointed by the Board of Directors and duly qualified. Officers elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors.

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### PROPOSAL 2 -- RATIFICATION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP ("PwC"), an independent registered public accounting firm, audited the financial statements of the Company for the fiscal year ending December 31, 2004. The Board of Directors, upon the recommendation of the Audit Committee, has approved the selection of PwC as independent registered public accounting firm to audit the financial statements of Katy and its subsidiaries for the fiscal year ending December 31, 2005, to report on the consolidated balance sheets and related statement of operations of Katy and its subsidiaries, and to perform such other appropriate accounting services as may be required by the Board of Directors and approved by the Audit Committee. The Board of Directors recommends that the stockholders vote in favor of ratifying the selection of PwC for the purposes set forth above. PwC has advised the Company that they are an independent registered public accounting firm with respect to the Company, within the meaning of standards established by the Public Company Accounting Oversight Board, the Independence Standards Board, and federal securities laws administered by the Securities and Exchange Commission.

A representative of PwC will be present at the annual meeting with the opportunity to make a statement and respond to appropriate questions.

PwC billed Katy for audit services and certain other professional services during 2004 and early 2005. These amounts are divided into the following four categories, and are detailed below.

#### Audit Fees

Fees for professional services rendered by PwC for the audit of the Company's annual financial statements for 2004 were \$597,263, of which an aggregate amount of \$524,254 had been billed through April 15, 2005.

Fees for professional services rendered by PwC for the audit of the Company's annual financial statements for 2003 were \$507,051.

#### Audit-Related Fees

Fees for audit-related services rendered by PwC for 2004 were \$102,498, of which an aggregate amount of \$46,306 had been billed through April 15, 2005. Audit-related fees in 2004 consisted of \$84,878 for the review of inventory controls at one of the Company's subsidiaries; \$8,676 for review and preparation for Section 404 of the Sarbanes-Oxley Act of 2002 and \$9,344 for other audit-related services.

PwC billed the Company \$74,709 of audit-related fees in 2003, of which \$63,709 consisted of fees for employee benefit plan audits, and \$11,000 is

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related to review and preparation in accordance with the Section 404 of the Sarbanes-Oxley Act of 2002.

### Tax Fees

PwC billed the Company \$13,375 for tax compliance and advisory services in 2004.

PwC billed the Company \$10,530 for tax compliance and advisory services in 2003.

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### All Other Fees

There were no fees billed to the Company by PwC for all other services in 2004 or 2003.

### REQUIRED VOTE

Approval of this proposal to ratify the appointment of PwC requires the affirmative vote by the majority of the outstanding shares of common stock present, in person, or by proxy, at the annual meeting.

Although the ratification of the independent registered public accounting firm is not required to be submitted to a vote of the stockholders, the Company believes that such ratification is a matter on which the stockholders should express their opinion. Notwithstanding stockholder approval of the ratification of the independent registered public accounting firm, the Audit Committee, in its discretion, may direct the appointment of a new independent registered public accounting firm at any time during the year, if the Audit Committee believes that such a change would be in the best interest of Katy and its stockholders. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain PwC as independent registered public accounting firm for the fiscal year ending December 31, 2005.

### RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2.

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### PROPOSAL 3 - STOCKHOLDER PROPOSAL REGARDING STOCKHOLDER RIGHTS AGREEMENT

GAMCO Investors, Inc., One Corporate Center, Rye, NY, 10580, owner of 1,060,683 shares of common stock, has given notice that it intends to present for action at the annual meeting the following resolution and has furnished the following statement in support of the proposal:

RESOLVED: that the shareholders of Katy Industries, Inc. (the "Company") request the Board of Directors redeem the Rights issued pursuant to the Rights Agreement, dated as of January 13, 1995, unless the holders of a majority of the outstanding shares approve the issuance at a meeting of the shareholders held as soon as practical.

On January 13, 1995, the Board of Directors declared a dividend of one Common Share Purchase Right pursuant to a Rights Agreement dated as of January

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13, 1995. Generally, the shareholders may exercise the Rights only when a person or group acquires, or through an exchange or tender offer attempts to acquire, a beneficial interest in 10% or more of the common stock of the Company. Shareholders -- other than the person or group attempting to acquire 10% -- may then exercise the Rights and receive stock at a fraction of its fair market value. The Agreement permitted certain shareholders, including GAMCO and affiliates, to retain existing shareholdings that exceeded 10%. The Company may redeem the Rights for \$.01 per Right.

These Rights represent a corporate anti-takeover device, commonly known as a "poison pill." Issuing the Rights allows the Company to increase vastly the cost to a potential bidder of effecting any merger or tender offer unless the Board of Directors favors the bid. Potential bidders cannot take their offer directly to the shareholders even if an overwhelming majority would have accepted the offer. The potential bidder must instead negotiate with management, and a Board or management may sometimes have interests that conflict with the interests of shareholders. We believe the Board should allow its shareholders to decide for themselves what represents a fair price for their holdings.

The power of shareholders to accept an offer by a potential bidder provides an important check and balance on management and the Board in their stewardship of the shareholders' interests. Should this proposal prevail, the Board, in an effort to improve shareholder value, should itself redeem the Rights or put the decision whether to continue using a poison pill to a vote of the shareholders at a special meeting to be held as soon as practical.

GAMCO URGES SHAREHOLDERS TO VOTE FOR THIS RESOLUTION

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### COMPANY STATEMENT IN OPPOSITION TO PROPOSAL

The Board of Directors recommends a vote AGAINST the adoption of this proposal relating to the Company's Stockholder Rights Agreement (the "Rights Agreement"), which is sometimes referred to as a "poison pill," for the following reasons:

The Board of Directors believes that rights plans such as the Company's Rights Agreement help maximize stockholder value and protect Company stockholders from unfair and abusive takeover tactics. The Board of Directors believes that the Rights Agreement is in the best interests of the Company and its stockholders. The Rights Agreement does not prevent offers to acquire the Company at a fair price. The Rights Agreement is designed instead to encourage any potential acquirer to negotiate directly with the Board of Directors, which is in the best position to evaluate the adequacy and fairness of proposed offers and to negotiate on behalf of stockholders. The opportunity of the Board of Directors to seek a higher price in a takeover contest on behalf of all stockholders is significantly greater than the ability of the individual stockholder to seek a higher price. In addition, the Board of Directors is in the best position to protect stockholders against abusive tactics during a takeover process, such as partial or two-tiered tender offers that do not treat all stockholders fairly and equally or acquisitions in the open market of shares constituting control without offering fair value to all stockholders. For these reasons, many of the companies in the S&P 500 Index have stockholder rights plans similar to the Company's Rights Agreement.

The Rights Agreement encourages a potential acquirer of control of the Company to negotiate with the Board of Directors on behalf of all stockholders, thereby strengthening the leverage of the Company and its stockholders. The Board of Directors believes that in certain instances, a potential acquirer of

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control could have the effect of reducing the public float of the company's common stock and unfavorably impacting the value of the stock. In responding to an acquisition proposal, your Board of Directors recognizes its obligation to fulfill its fiduciary duties to the Company and its stockholders. The Rights Agreement gives the Board of Directors the time and flexibility to fully evaluate an acquisition proposal and provides the Board leverage to negotiate better terms for the Company's stockholders. The terms of the Rights Agreement allow the Board of Directors to redeem the rights and to permit an acquisition that it determines, in the exercise of its fiduciary duties, reflects the full value of the Company and is fair to all stockholders. In evaluating whether to redeem the rights and approve an acquisition proposal, your Board will act in the best interests of the Company's stockholders.

Stockholder rights plans do not prevent unsolicited acquisition proposals and do not prevent companies from being acquired. The Board of Directors believes the Company's Rights Agreement is appropriately within the scope of responsibilities of the Board of Directors, acting on behalf of all stockholders. The continuation of the Rights Agreement accords with the Board's responsibilities for the management of the Company's affairs. Redeeming the rights under the Company's Rights Agreement would remove an important tool that the Board of Directors should have for the protection of stockholders. The Board of Directors believes that any decision to redeem the rights under the Rights Agreement should be made in the context of a specific acquisition proposal.

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Studies have validated the economic benefits of rights plans to stockholders. A study by Georgeson & Company published in November 1997 concluded that companies with rights plans received \$13 billion dollars in additional premiums during the study period, 1992 to 1996. The study also found that (i) premiums paid for target companies with rights plans were on average eight percentage points higher than premiums paid for companies without a rights plan, (ii) having a rights plan in place did not increase the likelihood of the withdrawal of a friendly bid or a hostile takeover being defeated, and (iii) rights plans did not reduce the likelihood that a Company would become a takeover target.

Georgeson & Company's study was followed by a study published in September 2000 by two business school professors that concluded that rights plans "contribute to premiums and higher shareholders gains." The same study also showed such plans do not "materially alter the likelihood of takeover success." "On the Use of Poison Pills and Defensive Payouts by Targets of Hostile Takeovers;" Randall A. Heron & Erik Lie, 2000.

A more recent study published in early 2004 by Institutional Shareholder Services and Georgia State University found that strong shareholder protection measures were correlated with, among other things, higher shareholder returns over three-, five- and ten-year periods, stronger profitability measures and higher dividend payouts and dividend yields. "The Correlation Between Corporate Governance and Company Performance;" Lawrence D. Brown, Marcus L. Caylor, 2004.

These studies suggest that rights plans achieve their intended objectives of protecting stockholders against inadequate offers and abusive tactics and increasing the bargaining power of the Board of Directors, resulting in a higher value for stockholders.

### REQUIRED VOTE

Approval of the stockholder proposal requires the affirmative vote by a majority of the outstanding shares of common stock present, in person or by

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proxy, at the annual meeting.

### RECOMMENDATION OF THE BOARD OF DIRECTORS

FOR THE REASONS STATED ABOVE, THE BOARD OF DIRECTORS RECOMMENDS A VOTE "AGAINST" PROPOSAL 3. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY A DIFFERENT CHOICE.

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### INFORMATION ABOUT KATY STOCK OWNERSHIP

#### OUTSTANDING SHARES

The only outstanding class of Katy voting securities is its common stock. As of April 13, 2005, there were 7,945,377 shares of Katy common stock outstanding and 1,795,300 options to acquire shares of common stock exercisable within the next 60 days.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table and notes show, as of April 13, 2005, information on the beneficial ownership of those persons or entities (including certain members of the family of Wallace E. Carroll, former Chairman of the Board, since deceased (the "Carroll Family")), and related persons and entities, who are known to Katy to be the beneficial owners of more than 5% of the shares of the Company's common stock. The notes below the table describe the nature of that beneficial ownership. Unless otherwise indicated, the nature of beneficial ownership is that of sole voting power and sole investment power. In calculating percentages for a given person, shares for which such person has the right to acquire beneficial ownership within 60 days (e.g., through exercising options) are deemed to be outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
-----	-----	-----	-----
Wallace E. Carroll, Jr. and the WEC Jr. Trusts c/o CRL, Inc. 7505 Village Square Drive, Suite 200 Castle Rock, CO 80104	3,118,361	(1)	39.1%
Amelia M. Carroll and the WEC Jr. Trusts c/o CRL, Inc. 7505 Village Square Drive, Suite 200 Castle Rock, CO 80104	3,144,361	(2)	39.4%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue 11th Floor Santa Monica, CA 90401	441,400	(3)	5.6%
Gabelli Funds, LLC, GAMCO Investors, Inc., MJG Associates, Inc., Gabelli Advisers, Inc. One Corporate Center	1,728,883	(4)	21.8%

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Rye, NY 10580-1434

Supplemental Disclosure Regarding  
Convertible Preferred Stock

-----  
KPTY Holding Company, L.L.C.  
111 Radio Circle  
Mt. Kisco, NY 10549

\*

(5)

\*

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(1) Wallace E. Carroll, Jr. directly holds 169,839 shares and options to acquire 27,000 shares. He is a trustee of trusts for his and his descendants' benefit (the "WEC Jr. Trusts") which collectively hold 804,635 shares. He and certain of the WEC Jr. Trusts own all the outstanding shares of CRL, Inc. which holds 2,071,036 shares. He is also a trustee of the Wallace Foundation which holds 32,910 shares. Wallace E. Carroll, Jr. also beneficially owns 8,729 shares directly owned by his wife, Amelia M. Carroll, and 2,106 shares held by a "rabbi trust" for his wife and 2,106 shares held for him in connection with the Katy Industries, Inc. Directors' Deferred Compensation Plan. Amounts shown for Wallace E. Carroll, Jr. and Amelia M. Carroll reflect multiple counting of shares where more than one of them is a trustee of a particular trust and is required to report beneficial ownership of shares that these trusts hold.

(2) Amelia M. Carroll holds 8,729 shares directly. She is a trustee of the WEC Jr. Trusts which collectively own 804,635 shares, and the Wallace Foundation which holds 32,910 shares. Wallace E. Carroll, Jr., her husband, and certain of the WEC Jr. Trusts, of which she is a trustee, own all the outstanding shares of CRL, Inc., which holds 2,071,036 shares. Amelia M. Carroll is also trustee of trusts for Lelia Carroll and her descendants' benefit holding 26,000 shares in the aggregate. Amelia M. Carroll also beneficially owns 169,839 shares and options to acquire 27,000 shares directly owned by her husband, and 2,106 shares held by a "rabbi trust" for her and 2,106 shares held for her husband in connection with the Katy Industries, Inc. Directors' Deferred Compensation Plan. Amounts shown for Amelia M. Carroll and Wallace E. Carroll, Jr. reflect multiple counting of shares where more than one of them is a trustee of a particular trust and is required to report beneficial ownership of shares that these trusts hold.

(3) Information obtained from Schedule 13G dated December 31, 2004 filed by Dimensional Fund Advisors, Inc. for the calendar year 2004.

(4) Information obtained from Schedule 13D/A dated November 23, 2004, filed by Gabelli Asset Management, Inc. ("GAMI"). That Schedule 13D/A was filed by Mario Gabelli and various entities which he directly or indirectly controlled or for which he acted as chief investment officer. The reporting persons beneficially owning the stock shown in the chart are as follows: Gabelli Funds, LLC ("Gabelli Funds") 537,600 shares, GAMCO Investors, Inc. ("GAMCO") 1,013,883 shares, MJG Associates, Inc. ("MJG") 113,400 shares, and Gabelli Advisers, Inc. ("Gabelli Advisers") 64,000 shares. Mario Gabelli, Gabelli Asset Management, Inc. ("GAMI") and Gabelli Group Capital Partners, Inc. ("Gabelli Partners") are all deemed to have beneficial ownership of the securities owned beneficially by each of these persons. Each of the reporting persons has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the securities reported for it, except that (i) GAMCO does not have the authority to vote 22,000 of the reported shares, and (ii) Gabelli Funds has sole dispositive and voting power with respect to the shares of Katy held by the funds so long as the aggregate voting interest of all joint filers does not exceed 25% of their

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total voting interest in Katy, and, in that event, the proxy voting committee of each fund shall vote that funds shares, (iii) the proxy voting committee of each fund may take and exercise in its sole discretion the entire voting power with respect to the shares held by such fund under special circumstances such as regulatory considerations, and (iv) the power of Mario Gabelli, GAMI and Gabelli Partners is indirect with respect to securities beneficially owned directly by other reporting persons.

(5) KKTU Holding Company, L.L.C., a Delaware limited liability company, currently owns 1,131,551 shares of the Company's convertible preferred stock, which is convertible into 18,859,183 shares of the Company's common stock. The preferred stock is convertible upon the earlier of June 28, 2006 or the occurrence of certain fundamental changes in

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Katy. Until December 31, 2004 (except under certain circumstances), the holders of the convertible preferred stock were entitled to a paid-in-kind (PIK) stock dividend. KKTU Holding Company is controlled by several entities, which have Kohlberg Management IV, L.L.C., a Delaware limited liability company ("KMIV"), as their general partner. Christopher Lacovara, Samuel P. Frieder, Christopher W. Anderson, James A. Kohlberg and C. Michael Jacobi, all of whom are members of the Board of Directors of Katy, are members of KMIV. Each of Messrs. Lacovara, Frieder, Anderson, Kohlberg and Jacobi disclaim beneficial ownership of these securities for purposes of Section 16 of the Exchange Act and any other purpose. It is not expected that the preferred shares will be converted into common stock prior to June 28, 2006. However, if a conversion did occur, based upon the ownership level of convertible preferred stock at April 13, 2005, the disclosed percentage ownerships of the Katy common stock on the above table would change as follows:

Name of Beneficial Owner -----	Ownership Percentage Upon Conversion -----
Wallace E. Carroll, Jr.	11.6%
Amelia M. Carroll	11.7%
Dimensional Fund Advisors, Inc	1.6%
Gabelli Funds, GAMCO, MJG, Gabelli Advisers	6.4%
KKTU Holding Company, L.L.C.	70.4%

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SECURITY OWNERSHIP OF MANAGEMENT

The following tables show, as of April 13, 2005, 1) the number of shares of common stock (first table) and 2) the number of shares of Convertible Preferred Stock (second table) that directors and certain executive officers beneficially own, and that directors and executive officers as a group own. Unless otherwise indicated, the nature of beneficial ownership is that of sole voting power and sole investment power. In calculating percentages, shares for which a person has the right to acquire beneficial ownership within 60 days

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(e.g., through exercising options) are deemed to be outstanding.

### Common Stock

Name	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
Christopher W. Anderson	--		*
William F. Andrews	17,000	(1)	*
Robert M. Baratta	68,985	(1)	*
Daniel B. Carroll	36,000	(1)	*
Wallace E. Carroll, Jr.	3,118,361	(1) (2) (3)	39.1%
David C. Cooksey	30,400	(1)	*
Samuel P. Frieder	--		*
C. Michael Jacobi	1,054,500	(1)	11.7%
James A. Kohlberg	--		*
Christopher Lacovara	--		*
Michael C. Paul	30,000	(1)	*
David S. Rahilly	75,000	(1)	*
Amir Rosenthal	260,000	(1)	3.2%
All directors and executive officers of Katy as a group (13 persons)	4,690,246	(1) (2) (3)	49.4%

\* Indicates 1% or less

### Convertible Preferred Stock

Name	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
Christopher W. Anderson	--	(4)	*
Samuel P. Frieder	--	(4)	*
James A. Kohlberg	--	(4)	*
Christopher Lacovara	--	(4)	*
C. Michael Jacobi	--	(4)	*
All directors and executive officers of Katy as a group (5 persons)	--	(4)	*

\* Indicates 1% or less

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(1) Includes options to acquire the following number of shares within 60 days:

William F. Andrews	12,000
Robert M. Baratta	47,500
Daniel B. Carroll	27,000
Wallace E. Carroll, Jr.	27,000
David C. Cooksey	30,000
C. Michael Jacobi	1,050,000
Michael C. Paul	30,000



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David S. Rahilly	75,000
Amir Rosenthal	250,000

(2) Includes shares deemed beneficially owned by Wallace E. Carroll, Jr. in his capacity as trustee of certain trusts for the benefit of members of the Carroll Family (see notes (1) and (2) under "Security Ownership of Certain Beneficial Owners").

(3) Includes 2,106 shares held by a "rabbi trust" in connection with the Katy Industries, Inc. Supplemental Retirement and Deferral Plan.

(4) Christopher Lacovara, Samuel P. Frieder, Christopher W. Anderson, James A. Kohlberg and C. Michael Jacobi have membership interests in Kohlberg Management IV, L.L.C., a Delaware limited liability company ("KMIV"). KMIV is the general partner of several entities with ownership interests in KKTY Holding Company, which currently owns 1,131,551 shares of the Company's convertible preferred stock, which is convertible into 18,859,183 shares of the Company's common stock. The preferred stock is convertible upon the earlier of June 28, 2006 or the occurrence of certain fundamental changes in Katy. Through December 31, 2004 (except under certain circumstances) the holders of the convertible preferred stock were entitled to a paid-in-kind (PIK) stock dividend. KKTY Holding Company is controlled by several entities, which have KMIV as their general partner. Each of Messrs. Lacovara, Frieder, Anderson, Kohlberg and Jacobi disclaim beneficial ownership of these securities.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16 of the Exchange Act, Katy's directors, executive officers and persons beneficially owning more than 10% of Katy's shares of equity securities must file reports of ownership and changes in ownership with the SEC, and copies of these reports with the New York Stock Exchange and Katy. Based solely on reviewing copies of the Section 16 reports from its most recent fiscal year, Katy believes that, through December 31, 2004, its directors, executive officers and greater than 10% beneficial owners complied with their Section 16 filing requirements.

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### EXECUTIVE COMPENSATION

#### SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table shows, for the years ending December 31, 2004, 2003 and 2002, the compensation paid by Katy and its subsidiaries (and certain other compensation paid or accrued for those years) to Katy's Chief Executive Officer ("CEO"), and the four other most highly compensated executive officers for the year ended December 31, 2004.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	
		Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Awards	Securit Underly Option SARs
C.Michael Jacobi President and Chief	2004	\$ 569,125	\$ --	\$ 32,360	\$ --	125,0
	2003	537,511	167,400	34,612	--	

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Executive Officer	2002	509,803	133,000	58,881	--	
Amir Rosenthal	2004	\$ 317,019	\$ --	\$ 19,853	\$ --	50,0
Vice President, Chief	2003	300,000	93,000	13,557	--	
Financial Officer,	2002	266,346	75,000	11,765	--	50,0
General Counsel and						
Secretary						
David S. Rahilly	2004	\$ 254,808	\$ --	\$ 14,736	\$ --	
President, Katy	2003	250,000	121,000	11,953	--	
Consumer Products	2002	221,154	187,500	9,365	--	25,0
David C. Cooksey	2004	\$ 166,774	\$ --	\$ 13,146	\$ --	
Corporate Director of	2003	159,032	39,717	12,645	--	
Accounting and	2002	152,354	23,000	9,216	--	
Assistant Treasurer						
Michael C. Paul	2004	\$ 165,477	\$ --	\$ 12,795	\$ --	
Corporate Director of	2003	67,692	20,000	4,104	--	30,0
Financial Reporting	2002	--	--	--	--	
and Treasurer						

(1) The 2004, 2003 and 2002 figures include employer contributions to the named executive Officers' 401(k) retirement accounts, automobile and other allowances, certain club memberships and non-cash compensation in the form of group term life insurance.

The 2004 figures include the following amounts:

Auto Allowance	Other Allowances	Club Memberships	Group Term Life Insurance	401(k) Match
-----	-----	-----	-----	-----

C. Michael Jacobi \$ 12