

KATY INDUSTRIES INC

Form DEF 14A

April 23, 2007

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OMB APPROVAL

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

**Katy Industries, Inc.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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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):

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1) Amount Previously Paid:

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**KATY INDUSTRIES, INC.**  
**2461 South Clark Street, Suite 630**  
**Arlington, Virginia 22202**  
**(703) 236-4300**

April 23, 2007

Dear Stockholders:

You are cordially invited to attend the 2007 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 31, 2007, at the Holiday Inn Mount Kisco, located at One Holiday Inn Drive, Mount Kisco, New York.

The principal business of the annual meeting will be (i) the election of Class II directors, and (ii) the ratification of the appointment by the Company s Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007. We will also review our results for the past fiscal year and report on significant aspects of our operations during the first quarter of 2007.

It is important that your shares are represented at the annual meeting. If you do not attend the annual meeting, you may vote your shares by mail by signing and returning the enclosed proxy card. Whether or not you plan to attend the annual meeting, we encourage you to vote by executing 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 vote.

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

Sincerely yours,

William F. Andrews  
*Chairman of the Board*

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**KATY INDUSTRIES, INC.  
2461 South Clark Street, Suite 630  
Arlington, Virginia 22202  
(703) 236-4300**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To the Stockholders of Katy Industries, Inc.:

We are holding the annual meeting of stockholders of Katy Industries, Inc. ( Katy ) on May 31, 2007 at 10:00 a.m. local time. The meeting will be held at the Holiday Inn Mount Kisco, located at One Holiday Inn Drive, Mount Kisco, New York. The meeting is called for the following purpose:

1. To elect five Class II directors for a two-year term;
2. To ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as Katy s independent registered public accounting firm for the fiscal year ending December 31, 2007; and
3. To transact such other business as may properly come before the meeting.

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 4, 2007.

**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 MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE TIME IT IS VOTED.**

By Order of the Board of Directors

Amir Rosenthal  
*Secretary*

Arlington, Virginia  
April 23, 2007

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**KATY INDUSTRIES, INC.  
2461 South Clark Street, Suite 630  
Arlington, Virginia 22202  
(703) 236-4300**

**PROXY STATEMENT**

**Approximate date of mailing May 3, 2007**

**For the Annual Meeting of Stockholders  
To Be Held May 31, 2007**

**INFORMATION ABOUT THE ANNUAL STOCKHOLDERS MEETING**

The 2007 annual meeting of stockholders of Katy Industries, Inc. (the Company or Katy ) will be held at 10:00 a.m. local time on May 31, 2007 at the Holiday Inn Mount Kisco, located at One Holiday Inn Drive, Mount Kisco, New York.

This Proxy Statement is furnished by and on behalf of the board of directors (the Board of Directors ) of Katy in connection with the solicitation of proxies for use at the annual meeting and at any adjournments or postponements thereof. This Proxy Statement includes information that Katy is required to provide to you under the rules of the Securities and Exchange Commission ( SEC ) and is intended to assist you in voting your shares. On or about May 3, 2007, Katy will begin mailing this Proxy Statement and the enclosed proxy card to all people who, according to our stockholder records, owned shares of the Company s common stock at the close of business on April 4, 2007. As of April 4, 2007, there were 7,951,177 shares of our common stock issued and 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**

**VOTING SHARES AND REVOCABILITY OF PROXIES**

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 4, 2007. 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. Katy will provide you with a ballot at the annual meeting. To vote by proxy, you must complete and return the enclosed proxy card. By completing and returning (and not revoking) the enclosed proxy card, you will be directing the representatives 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. The submission of a signed proxy will not affect your right to attend and vote in person at the annual meeting.

**IF YOU COMPLETE THE PROXY CARD EXCEPT FOR THE VOTING INSTRUCTIONS, THEN YOUR SHARES WILL BE VOTED FOR THE BOARD OF DIRECTORS RECOMMENDATIONS SET FORTH IN THIS PROXY STATEMENT.**

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 at Katy Industries, Inc., 2461 South Clark Street, Suite 630, Arlington, Virginia 22202, that you wish to revoke your proxy.

Submitting a proxy bearing a later date than your original proxy.

Attending the annual meeting and voting in person. 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.

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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, executed and returned proxies will be voted in a manner deemed by the proxy representatives named therein to be in the best interests of Katy and its stockholders.

**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. Under Delaware law, directors will be elected by a plurality of the votes of the shares of common stock entitled to vote and present in person or represented by proxy at a meeting where a quorum is present. Under plurality voting, the nominees who receive the largest number of votes cast will be elected as directors, up to the maximum number of directors to be elected at the annual meeting. Only votes actually cast will be counted for the purpose of determining whether a particular nominee received more votes than the persons, if any, nominated for the same seat on the Board of Directors. 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 the proposal ratifying the appointment of PricewaterhouseCoopers LLP requires the affirmative vote of the holders of a majority of the shares of 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, 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**

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 2006 annual meeting, and five Class II directors, elected to two-year terms at the 2005 annual meeting. Stockholders will elect five Class II directors at this year's annual meeting to serve for a two-year term ending at the time of the 2009 annual meeting.

The Board of Directors have nominated the following nominees for election as Class II directors to the Board of Directors, each to serve until the 2009 annual meeting or until their successors are duly elected and qualified:

Christopher W. Anderson  
William F. Andrews  
Samuel P. Frieder  
Christopher Lacovara  
Shant Mardirossian

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: Robert M. Baratta, Daniel B. Carroll, Wallace E. Carroll, Jr., and Anthony T. Castor III. The Class I directors are not up for re-election at the annual meeting, as their terms do not expire until the time of the 2008 annual meeting.

**REQUIRED VOTE**

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 NOMINEES STANDING FOR ELECTION  
CLASS II DIRECTORS**

The following table shows information about the nominees to Katy's Board of Directors ( Board ) who are currently Class II directors and previously elected by the Company's stockholders at prior annual meetings, except that Shant Mardirossian was elected a director by the Board on February 28, 2007:

| Name                    | Age | Principal Occupation and<br>Business Experience<br>During the Past Five Years  | Other Directorships   | Period of Service<br>as Katy Director |
|-------------------------|-----|--|---|---------------------------------------|
| Christopher W. Anderson | 32  | 2005 to Present: Principal of Kohlberg & Co., L.L.C., a U.S. private equity firm<br>1998 to 2005: Associate at Kohlberg & Co., L.L.C.  | None  | 2001 to Present                       |
| William F. Andrews      | 75  | 2004 to Present: Chairman of Singer Worldwide, a leading seller of consumer and artisan sewing machines<br><br>2001 to Present: Chairman of Katy<br>2001 to 2005: Chairman of Allied Aerospace Industries, Inc., an aerospace and defense engineering firm and provider of comprehensive aerospace and defense products and services<br>2000 to Present: Chairman of Corrections Corp. of America, a private sector provider of detention and correction services<br>1997 to Present: Consultant with Kohlberg & Co., L.L.C., a U.S. private equity firm | Black Box Corporation<br>Corrections Corp. of America<br>TREX Corp.<br>O Charley's Inc. | 1991 to Present                       |
| Samuel P. Frieder       | 42  | 2006 to Present: Co-Managing Partner of Kohlberg & Co., L.L.C., a U.S. private equity firm<br><br>1989 to 2006: Principal of Kohlberg & Co., L.L.C.  | Stanadyne Corporation<br>Kohlberg Capital Corporation                                   | 2001 to Present                       |
| Christopher Lacovara    | 42  | 2006 to Present: Co-Managing Partner of Kohlberg & Co., L.L.C., a U.S. private equity firm   | Stanadyne Corporation<br>Kohlberg Capital   | 2001 to Present                       |

|                    |    |  |             |                            |
|--------------------|----|--|-------------|----------------------------|
|                    |    |  | Corporation |                            |
| Shant Mardirossian | 39 | 1988 to 2006: Principal of Kohlberg & Co., L.L.C.<br>2005 to Present: Principal and CFO of Kohlberg & Co., L.L.C., a U.S. private equity firm<br>1999 to 2005: CFO of Kohlberg & Co., L.L.C. | None        | 2007 (February) to Present |

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**INFORMATION CONCERNING DIRECTORS NOT STANDING FOR ELECTION  
CLASS I DIRECTORS**

The following directors were elected to two-year term at the 2006 annual meeting, and are not nominees for re-election at the 2007 annual meeting:

| <b>Name</b>                | <b>Age</b> | <b>Principal Occupation and Business Experience During the Past Five Years</b>  | <b>Other Directorships</b>       | <b>Period of Service as Katy Director</b> |
|----------------------------|------------|---|----------------------------------|---|
| Robert M. Baratta          | 77         | 2001 to Present: Director of Katy   | None                             | 2001 to Present                           |
| Daniel B. Carroll(1)       | 71         | 2003 to Present: Private Investor<br>1994 to Present: Partner of Newgrange L.P., a components supplier to the global footwear industry<br>1985 to Present: Member and Manager of ATP Manufacturing, LLC, a manufacturer of molded poly-urethane components<br>1985 to 2003: Vice President of ATP Manufacturing, LLC            | None                             | 1994 to Present                           |
| Wallace E. Carroll, Jr.(1) | 69         | 2005 to Present: Private Investor<br>1992 to 2005: Chairman of CRL, Inc., a diversified holding company   | None                             | 1991 to Present                           |
| Anthony T. Castor III      | 55         | 2005 to Present: Chief Executive Officer, President, and a Director of Katy<br>2003 to 2005: President and Chief Executive Officer of Chromalox, Inc., a supplier of precision heating and control devices<br>2000 to 2002: President and Chief Executive Officer of the Morgan Group, Inc., a transportation services supplier | Super Vision International, Inc. | 2005 to Present                           |

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

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**BOARD STRUCTURE**

The Board of Directors met five times during 2006. Each director in office at the time of such meeting attended at least 75% of the Board meetings and the meetings of the Board committees of which he is a member. The non-management directors meet in executive session without members of management present at every regular Board meeting. At these meetings, the presiding director rotates through each non-management director based on the alphabetical order of the directors' last names. In addition, eight directors attended the 2006 annual meeting.

Katy's bylaws provide for an Executive Committee to which the Board of Directors has assigned all powers delegable by law. The Board of Directors also has an Audit Committee, Compensation Committee and Nominating and Governance Committee. All of the members of these three Board committees are independent within the meaning of SEC regulations (as applicable), the listing standards of the New York Stock Exchange ( NYSE ) and Katy's Corporate Governance Guidelines.

**BOARD COMMITTEES**

*Executive Committee*

The Executive Committee presently consists of Christopher Lacovara, Christopher W. Anderson and Anthony T. Castor III. The Executive Committee met informally through numerous telephone conferences at intervals between meetings of the full Board of Directors, and acted by unanimous consent without formal meetings.

*Audit Committee*

The Audit Committee consists of Daniel B. Carroll (Chairman), Christopher Lacovara and William F. Andrews, each of whom the Board of Directors has determined to be independent as defined by the relevant provisions of the Sarbanes-Oxley Act of 2002, the NYSE listing standards and the Company's Corporate Governance Guidelines. The Committee's Charter provides that the Committee's primary function remains review and oversight of: (A) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (B) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative generally accepted accounting principles ( GAAP ) methods on financial statements; (C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; (D) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of pro forma or adjusted non-GAAP information), as well as any financial information and earnings guidance provided to analysts and rating agencies; (E) the Company's compliance with laws and regulations; and (F) maintenance of an effective and efficient audit of the Company's annual financial statements by a qualified and independent auditor.

The Audit Committee met four times during 2006. The Board of Directors has determined that each of the members of the Committee is qualified to serve on the Audit Committee in accordance with the criteria specified in rules issued by the SEC and the NYSE. The Board of Directors has determined that Mr. Lacovara, a member of the Audit Committee, qualifies as an audit committee financial expert as that term is defined by SEC rules. As mentioned above, the Board of Directors has determined that Mr. Lacovara is an independent director.

The Audit Committee's Charter, as updated March 2007, is posted on the Company's website, at [www.katyindustries.com](http://www.katyindustries.com).

***Compensation Committee***

The Compensation Committee consists of Wallace E. Carroll, Jr. (Chairman), Christopher Lacovara and Christopher W. Anderson. This Committee, which has the primary responsibility for developing and overseeing the implementation of the Company's philosophy with respect to the compensation of executive officers and directors, met three times during 2006. The Compensation Committee is appointed by the Board to discharge the Board's responsibilities relating to compensation of the Company's directors and officers. The Committee has overall

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responsibility for designing, approving and evaluating the director and officer compensation plans, policies and programs of the Company, including without limitation any annual and long-term incentive plans, as set forth in the Committee's Charter.

The Compensation Committee's Charter, as updated March 2007, is posted on the Company's website, at [www.katyindustries.com](http://www.katyindustries.com).

### ***Nominating and Governance Committee***

The Nominating and Governance Committee consists of Samuel P. Frieder (Chairman), William F. Andrews and Daniel B. Carroll. This Committee met one time during 2006. The Nominating and Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of Katy's Corporate Governance Guidelines, and sets and reviews policies and procedures in place throughout various disciplines within the Company to ensure high ethical standards are practiced. In addition, the Committee makes recommendations to the Board regarding candidates for the Board. The Committee reports its findings and recommendations to the Board.

The Nominating and Governance Committee's Charter, as updated March 2007, is posted on the Company's website, at [www.katyindustries.com](http://www.katyindustries.com).

The entire Board of Directors considers and selects nominees for directors on the basis of recommendations from the Nominating and Governance Committee. The Nominating and Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management. Additionally, subject to compliance with the requirements of the bylaws, the Nominating and Governance Committee will consider nominations from stockholders.

Once the Nominating and Governance Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the Committee's evaluation factors. The Committee's evaluation factors are:

- the ability of the prospective nominee to represent the interests of the stockholders of the Company;
- the prospective nominee's standards of integrity, commitment and independence of thought and judgment;
- the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and
- the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee, and others as appropriate, will interview prospective nominees in person or by telephone. After completing this evaluation and

interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

Pursuant to the advance notice provision of Katy's bylaws, stockholder nominations for directors must be received by Katy not less than 50 days or more than 90 days before the 2007 annual meeting. Any nominations for directors made by stockholders must include the following information regarding the nominee: name; age; business address; residence address; principal occupation or employment; class and number of shares of Katy beneficially owned; and any other information required to be disclosed in a proxy solicitation for the election of directors.

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Additionally, the stockholder making such nomination must provide his or her name and address, and the number of shares of the Company beneficially owned by such stockholder. No person is eligible for election as a director of the Company unless he or she is nominated (i) by the Board of Directors or (ii) in accordance with the foregoing requirements.

## **COMPENSATION COMMITTEE INTERLOCKS**

The Compensation Committee currently consists of Messrs. Carroll, Jr., Lacovara and Anderson. No member of the Committee was an employee of Katy during the last fiscal year or an officer of Katy in any prior period. There are no Compensation Committee interlocks between Katy and other entities involving Katy's executive officers and members of the Board of Directors who serve as an executive officer or board member of such other entities.

## **CORPORATE GOVERNANCE**

### ***Corporate Governance Guidelines***

The Corporate Governance Guidelines adopted by the Board meet or exceed the standards adopted by the New York Stock Exchange. The full text of the Corporate Governance Guidelines, as updated March 2007, can be found in the Corporate Governance section of the Company's website ([at www.katyindustries.com](http://www.katyindustries.com)).

### ***Director Independence***

Pursuant to the Corporate Governance Guidelines, the Board undertook its annual review of director independence in March 2007. During this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates, including those reported under *Certain Relationships and Related Transactions* below. The Board also examined transactions and relationships between directors or their affiliates and members of the Company's senior management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

To assist it in making determinations of Director independence, the Board has determined that each of the relationships below is categorically immaterial and therefore, by itself, does not preclude a director from being independent; provided, however, that if a director has any relationship that would be required to be disclosed as a related party transaction under SEC rules, that relationship may not be treated as categorically immaterial and must be specifically considered by the Board in assessing the director's independence:

(i)(A) the Director has an immediate family member who is a current employee of the Company's internal or external auditor, but the immediate family member does not participate in the firm's audit, assurance or tax compliance practice; or (B) the Director or an immediate family member was, within the last three years, a partner or employee of such a firm but no longer works at the firm and did not personally work on the Company's audit while at the firm;

(ii) the Director or an immediate family member is, or has been within the last three years, employed at another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee, but the Director or the Director's immediate family member is not an executive officer of the other company and his or her compensation is not determined or reviewed by that company's compensation committee;

(iii) the Director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in any of the last three

fiscal years, but the total payments in each year were less than \$1 million, or 2% of such other company's consolidated gross revenues, whichever is greater;

(iv) the Director is a partner or the owner of 5% or more of the voting stock of another company that has made payments to, or received payments from, the Company for property or services in any of the last three fiscal years, but the total payments in each year were less than \$1 million, or 2% of such other company's consolidated gross revenues, whichever is greater;

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(v) the Director is a partner, the owner of 5% or more of the voting stock or an executive officer of another company which is indebted to the Company, or to which the Company is indebted, but the total amount of the indebtedness in each of the last three fiscal years was less than \$1 million, or 2% of such other company's consolidated gross revenues, whichever is greater; and

(vi) the Director is an executive officer of a non-profit organization to which the Company has made contributions in any of the last three fiscal years, but the Company's total contributions to the organization in each year were less than \$1 million, or 2% of such organization's consolidated gross revenues, whichever is greater.

As a result of this review, the Board of Directors has affirmatively determined that each director is independent of the Company and its management as defined in the NYSE listing standards and as set forth in the Corporate Governance Guidelines, with the exception of Anthony T. Castor III. Mr. Castor is considered a non-independent inside director because of his employment as a senior executive of the Company.

***Certain Relationships and Related Transactions***

As part of its oversight responsibilities, the charter of our Audit Committee, as updated March 2007, requires that the Audit Committee review and discuss with management and the independent auditors any related-party transactions or other courses of dealing with parties related to Katy which are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent, third-parties and which are relevant to an understanding of Katy's financial statements.

During 2006, Katy paid Kohlberg & Co. \$500,000 for ongoing management advisory services. Katy expects to pay \$500,000 per year for these services, as outlined in the Recapitalization Agreement of June 2, 2001. Samuel P. Frieder and Christopher Lacovara are Co-Managing Partners of Kohlberg & Co. Christopher W. Anderson and Shant Mardirossian are Principals of Kohlberg & Co. William F. Andrews, Chairman of the Board, is a consultant, or Operating Principal, with Kohlberg & Co.

In connection with the acquisition by Katy of Continental Commercial Products, LLC (CCP, a successor to Contico International, Inc.) in 1999, the Company entered into building lease agreements with Lester Miller, the former owner of CCP, and a Katy director from 1999 to 2000. Rental expense for these properties approximates historical market rates. Related party rental expense was approximately \$500,000 for the year ended December 31, 2006.

***Code of Ethics***

Katy has adopted a Code of Business Conduct and Ethics for directors, executive officers and employees. A copy of the Code of Business Conduct and Ethics, as updated March 2007, is available on Katy's website at [www.katyindustries.com](http://www.katyindustries.com).

**DIRECTOR COMPENSATION**

The following table summarizes the compensation for his service to the Board and its committees during 2006 for directors who are not employed by Katy or its subsidiaries.

| <b>Fees Earned or<br/>Paid<br/>in Cash</b> | <b>Total</b> |
|--|--------------|
|--|--------------|

| <b>Name</b>             | <b>(\$)</b> | <b>Option Awards (\$)(1)(2)</b> | <b>(\$)</b> |
|-------------------------|-------------|---------------------------------|-------------|
| Christopher W. Anderson | \$          | \$                              | \$          |
| William F. Andrews      | \$          | \$                              | \$          |
| Robert M. Baratta       | \$ 26,020   | \$ 11,212                       | \$ 37,232   |
| Daniel B. Carroll       | \$ 36,020   | \$ 3,052                        | \$ 39,072   |
| Wallace E. Carroll, Jr. | \$ 35,020   | \$ 3,052                        | \$ 38,072   |
| Samuel P. Frieder       | \$          | \$                              | \$          |
| Christopher Lacovara    | \$          | \$                              | \$          |
| Shant Mardirossian      | \$          | \$                              | \$          |

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(1) The value of the awards, stock appreciation rights, shown in the table represents the expense reported for financial reporting purposes in 2006 as described in Note 12 to the Company's consolidated financial statements included in the 2006 Annual Report on Form 10-K.

(2) As of December 31, 2006, the directors held options and SARs to acquire shares granted to them under the Company's stock-based compensation plans as follows:

| <b>Name</b>             | <b>Grant Date</b> | <b>Option/SAR<br/>Exercise<br/>Price</b> | <b>No.<br/>Vested</b> | <b>No.<br/>Not<br/>Vested</b> | <b>Total<br/>Outstanding</b> |
|-------------------------|-------------------|--|-----------------------|-------------------------------|------------------------------|
| William F. Andrews      | 05/20/97          | \$ 16.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/98          | \$ 18.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/99          | \$ 17.31                                 | 2,000                 |                               | 2,000                        |
|                         | 05/10/00          | \$ 10.50                                 | 2,000                 |                               | 2,000                        |
| <b>Total</b>            |                   |  | <b>8,000</b>          |                               | <b>8,000</b>                 |
| Robert M. Baratta       | 12/10/99          | \$ 9.88                                  | 2,000                 |                               | 2,000                        |
|                         | 02/26/00          | \$ 9.50                                  | 8,000                 |                               | 8,000                        |
|                         | 05/30/02          | \$ 5.15                                  | 2,000                 |                               | 2,000                        |
|                         | 11/22/02          | \$ 3.15                                  | 8,250                 |                               | 8,250*                       |
|                         | 07/11/03          | \$ 4.31                                  | 2,000                 |                               | 2,000                        |
|                         | 05/27/04          | \$ 5.91                                  | 2,000                 |                               | 2,000                        |
|                         | 05/26/05          | \$ 3.69                                  | 2,000                 |                               | 2,000                        |
|                         | 08/30/06          | \$ 2.08                                  | 2,000                 |                               | 2,000*                       |
| <b>Total</b>            |                   |  | <b>28,250</b>         |                               | <b>28,250</b>                |
| Daniel B. Carroll       | 05/20/97          | \$ 16.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/98          | \$ 18.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/99          | \$ 17.31                                 | 2,000                 |                               | 2,000                        |
|                         | 05/10/00          | \$ 10.50                                 | 2,000                 |                               | 2,000                        |
|                         | 06/29/01          | \$ 4.74                                  | 2,000                 |                               | 2,000                        |
|                         | 05/30/02          | \$ 5.15                                  | 2,000                 |                               | 2,000                        |
|                         | 11/25/02          | \$ 3.11                                  | 7,000                 |                               | 7,000                        |
|                         | 07/11/03          | \$ 4.31                                  | 2,000                 |                               | 2,000                        |
|                         | 05/27/04          | \$ 5.91                                  | 2,000                 |                               | 2,000                        |
|                         | 05/26/05          | \$ 3.69                                  | 2,000                 |                               | 2,000                        |
|                         | 08/30/06          | \$ 2.08                                  | 2,000                 |                               | 2,000*                       |
| <b>Total</b>            |                   |  | <b>27,000</b>         |                               | <b>27,000</b>                |
| Wallace E. Carroll, Jr. | 05/20/97          | \$ 16.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/98          | \$ 18.13                                 | 2,000                 |                               | 2,000                        |
|                         | 05/20/99          | \$ 17.31                                 | 2,000                 |                               | 2,000                        |
|                         | 05/10/00          | \$ 10.50                                 | 2,000                 |                               | 2,000                        |
|                         | 06/29/01          | \$ 4.74                                  | 2,000                 |                               | 2,000                        |

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|       |          |    |      |        |        |
|-------|----------|----|------|--------|--------|
|       | 05/30/02 | \$ | 5.15 | 2,000  | 2,000  |
|       | 11/25/02 | \$ | 3.11 | 7,000  | 7,000  |
|       | 07/11/03 | \$ | 4.31 | 2,000  | 2,000  |
|       | 05/27/04 | \$ | 5.91 | 2,000  | 2,000  |
|       | 05/26/05 | \$ | 3.69 | 2,000  | 2,000  |
|       | 08/30/06 | \$ | 2.08 | 2,000  | 2,000* |
| Total |          |    |      | 27,000 | 27,000 |

\* Denotes SAR grants.

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For 2006, directors who were not employed by Katy or its subsidiaries or Kohlberg & Co. received: (i) an annual retainer of \$10,000; (ii) an annual stock appreciation right ( SAR ) grant of 2,000 stock appreciation rights under the Stand-Alone Stock Appreciation Rights Agreement (see below); (iii) the cash equivalent of 2,000 shares of the Company's common stock at the closing price the day prior to the annual meeting (in 2006, this grant was made using the closing price of the stock on August 30th since that is when the policy was adopted and the Company did not want to engage in any backdating of this compensation arrangement; in future years, the grant will be made using the closing price of the stock the day prior to the annual meeting); and (iv) \$2,500 for attending personally, \$1,000 for attending telephonically, each meeting of the Board. This group of directors also received in 2006: (i) an annual retainer of \$6,000 if they chaired the Compensation Committee or the Audit Committee, and (ii) \$1,000 for attending personally, \$500 for attending telephonically, each meeting of a Board committee. Class II directors and those directors that are also officers do not receive the compensation described in this section for their service on the Board of Directors.

Under the Katy Industries, Inc. Stand-Alone Stock Appreciation Rights Agreement (the Stand-Alone Stock Appreciation Rights Agreement ), each non-employee director who is not a Class II director receives an annual SAR grant of 2,000 SARs at the May meeting of the Board of Directors each year (in 2006, this grant was made at the August meeting of the Board of Directors for the reason noted in the immediately preceding paragraph; in future years, this grant will be made at the May meeting of the Board of Directors). The initial value is the fair market value on the date of grant. The director may exercise these SARs at any time during the ten years from the date of grant.

Directors receiving compensation for their services may also participate in the Directors' Deferred Compensation Plan which became effective June 1, 1995 (the Directors' Deferred Compensation Plan ). Under this Plan, a director may defer directors' fees, retainers and other compensation paid for services as a director until the later of the director's attainment of age 62 or ceasing to be a director. Each director has 30 days before the beginning of a Plan Year (as defined in the Directors' Deferred Compensation Plan) in which to elect to participate in the Directors' Deferred Compensation Plan. Directors may invest these amounts in one or more investment alternatives offered by Katy. Directors may elect to receive distributions of deferred amounts in a lump sum or five annual installments.

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

The following table provides information with respect to the above deferred compensation plans for the following directors, who participated in the plans when they were officers of Katy.

| Name              | Aggregate<br>Earnings in<br>Last FY<br>(\$) | Aggregate<br>Withdrawals/<br>Distributions<br>(\$) | Aggregate<br>Balance at<br>Last FYE<br>(\$) |
|-------------------|---|--|---|
| Robert M. Baratta | \$ 2,433                                    | \$ 39,000  | \$ 58,572                                   |

|                         |    |        |    |    |         |
|-------------------------|----|--------|----|----|---------|
| Wallace E. Carroll, Jr. | \$ | 32,582 | \$ | \$ | 236,495 |
|-------------------------|----|--------|----|----|---------|

No contributions were made by either the Company or the directors in 2006.

**Table of Contents****PROPOSAL 2 RATIFICATION OF APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors, upon the recommendation of the Audit Committee, has approved the selection of PricewaterhouseCoopers LLP ( PwC ) as independent registered public accounting firm to audit the financial statements of Katy and its subsidiaries for the fiscal year ending December 31, 2007, to report on the consolidated balance sheets and related statement of operations and cash flows of Katy and its subsidiaries, and to perform such other appropriate auditing 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, an independent registered public accounting firm, audited the financial statements of the Company for the fiscal year ending December 31, 2006. 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 SEC.

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 2006 and early 2007. These amounts are divided into the following four categories, and are detailed below.

|                    | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|--------------------|-------------|-------------|-------------|
| Audit Fees         | \$ 625,857  | \$ 614,272  | \$ 597,263  |
| Audit-Related Fees | 27,789      | 50,060      | 102,498     |
| Tax Fees           | 10,976      | 17,750      | 13,375      |
| All Other Fees     |             |             |             |
| Total              | \$ 664,622  | \$ 682,082  | \$ 713,136  |

***Audit Fees***

Fees for professional services rendered by PwC for the audit of the Company's annual financial statements for 2006 were \$625,857, all of which had been billed through April 4, 2007.

PwC billed the Company \$614,272 of fees for the audit of the Company's annual financial statements in 2005.

PwC billed the Company \$597,263 of fees for the audit of the Company's annual financial statements in 2004.

***Audit-Related Fees***

Fees for audit-related services rendered by PwC for 2006 were \$27,789, all of which had been billed through April 4, 2007. Audit-related fees in 2006 were for agreed-upon procedures associated with one of the Company's divestitures in 2006.

PwC billed the Company \$50,060 of audit-related fees in 2005. Audit-related fees in 2005 were for the review of the SEC comment letter received by the Company.

PwC billed the Company \$102,498 of audit-related fees in 2004. Audit-related fees in 2004 consisted of \$84,478 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.

***Tax Fees***

Fees for tax compliance and advisory services rendered by PwC for 2006 were \$10,976, all of which had been billed through April 4, 2007.

PwC billed the Company \$17,750 for tax compliance and advisory services in 2005.

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

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***All Other Fees***

There were no fees billed to the Company by PwC for all other services in 2006, 2005 or 2004.

**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 should be presented as a matter of good corporate practice. 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 appoint PwC as independent registered public accounting firm for the fiscal year ending December 31, 2007.

**RECOMMENDATION OF THE BOARD OF DIRECTORS**

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE APPROVAL OF PROPOSAL 2.

**Table of Contents****INFORMATION ABOUT KATY STOCK OWNERSHIP****OUTSTANDING SHARES**

The only outstanding class of Katy voting securities is its common stock. As of April 4, 2007, there were 7,951,177 shares of common stock outstanding and 1,342,000 options to acquire shares of common stock exercisable within the next 60 days.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table and accompanying footnotes set forth information concerning the beneficial ownership of Katy's issued and outstanding common stock by those persons or entities known by management of Katy to own beneficially more than 5% of Katy's issued and outstanding common stock (including certain members of the family of Wallace E. Carroll, former Chairman of the Board, since deceased (the Carroll Family)). Except as otherwise indicated in the footnotes below, such information is provided as of April 4, 2007. According to rules adopted by the SEC, a person is the beneficial owner of securities if he or she has or shares the power to vote them or to direct their investment or has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant or similar right, the conversion of a security or otherwise.

| Name and Address<br>of Beneficial Owner  | Amount and Nature<br>of Beneficial |       | Percent of<br>Class |
|--|------------------------------------|-------|---------------------|
|  | Ownership                          | Notes |                     |
| Wallace E. Carroll, Jr. and the WEC Jr. Trusts<br>c/o CRL, Inc.<br>7505 Village Square Drive, Suite 200<br>Castle Rock, CO 80104               | 3,116,361                          | (1)   | 39.1%               |
| Amelia M. Carroll and the WEC Jr. Trusts<br>c/o CRL, Inc.<br>7505 Village Square Drive, Suite 200<br>Castle Rock, CO 80104                     | 3,142,361                          | (2)   | 39.4%               |
| Anthony T. Castor III<br>2461 South Clark Street, Suite 630<br>Arlington, VA 22202   | 510,000                            | (3)   | 6.0%                |
| Dimensional Fund Advisors, LP<br>1299 Ocean Avenue<br>11th Floor<br>Santa Monica, CA 90401   | 442,268                            | (4)   | 5.6%                |
| Gabelli Funds, LLC, GAMCO Asset Management Inc.,<br>MJG Associates, Inc., Gabelli Advisers, Inc.<br>One Corporate Center<br>Rye, NY 10580-1435 | 1,781,983                          | (5)   | 22.4%               |

**Supplemental Disclosure Regarding Convertible Preferred Stock**

KKTY Holding Company, L.L.C.  
111 Radio Circle  
Mount Kisco, NY 10549

\*

(6)

\*

(1) Wallace E. Carroll, Jr. directly holds 171,839 shares and options to acquire 23,000 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.

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(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 171,839 shares and options to acquire 23,000 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) Anthony T. Castor III holds 10,000 shares directly and options to acquire 500,000 shares.

(4) Information obtained from Schedule 13G dated December 31, 2006 filed by Dimensional Fund Advisors LP for the calendar year 2006.

(5) Information obtained from Schedule 13D dated June 21, 2006, filed by GAMCO Investors, Inc. ( GBL ). That Schedule 13D 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 ) 500,000 shares, GAMCO Asset Management Inc. ( GAMCO ) 1,108,983 shares, MJG Associates, Inc. ( MJG ) 110,000 shares, and Gabelli Advisers, Inc. ( Gabelli Advisers ) 63,000 shares. Mario Gabelli, GBL and GGCP, Inc. ( GGCP ) 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 18,000 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 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, GBL and GGCP is indirect with respect to securities beneficially owned directly by other reporting persons.

(6) KKTY 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 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. KKTY 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 W. Anderson, Samuel P. Frieder, Christopher Lacovara, and Shant Mardirossian, all of whom are members of the Board of Directors of Katy, are members of KMIV. Each of Messrs. Anderson, Frieder, Jacobi, Lacovara, and Mardirossian disclaim beneficial ownership of these securities for purposes of Section 16 of the Exchange Act and any other purpose. If the preferred shares were converted into common stock, based upon the ownership level of convertible preferred stock at April 4, 2007, the disclosed percentage ownerships of the Katy common stock in the above table would change as follows:

|                                 |   |
|---------------------------------|---|
|                                 | <b>Ownership Percentage<br/>Upon<br/>Conversion</b> |
| <b>Name of Beneficial Owner</b> |   |

|   |       |
|---|-------|
| Wallace E. Carroll, Jr.                     | 11.6% |
| Amelia M. Carroll                           | 11.7% |
| Anthony T. Castor III                       | 1.9%  |
| Dimensional Fund Advisors, Inc              | 1.6%  |
| Gabelli Funds, GAMCO, MJG, Gabelli Advisers | 6.6%  |
| KKTY Holding Company, L.L.C.                | 70.3% |

**Table of Contents****SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT**

The following tables show (i) the number of shares of common stock and (ii) the number of shares of Convertible Preferred Stock beneficially owned by directors and certain executive officers and owned by directors and executive officers as a group. Except as otherwise indicated in the footnotes below, such information is provided as of April 4, 2007. According to rules adopted by the SEC, a person is the beneficial owner of securities if he or she has or shares the power to vote them or to direct their investment or has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant or right, the conversion of a security or otherwise.

**Common Stock**

| <b>Name</b>   | <b>Amount and<br/>Nature<br/>of Beneficial<br/>Ownership</b> | <b>Notes</b> | <b>Percent<br/>of Class</b> |
|---|--|--------------|-----------------------------|
| Christopher W. Anderson   |  |              | *                           |
| William F. Andrews  | 11,000   | (1)          | *                           |
| Robert M. Baratta   | 41,650   | (1)          | *                           |
| Douglas A. Brady  | 50,000   | (1)          | *                           |
| Daniel B. Carroll   | 34,000   | (1)          | *                           |
| Wallace E. Carroll, Jr.   | 3,116,361  | (1)(2)(3)    | 39.1%                       |
| Anthony T. Castor III   | 510,000  | (1)          | 6.0%                        |
| David C. Cooksey  | 30,400   | (1)          | *                           |
| Samuel P. Frieder   |  |              | *                           |
| Robert A. Gail  |  |              | *                           |
| Christopher Lacovara  |  |              | *                           |
| Shant Mardirossian  |  |              | *                           |
| Joseph E. Mata  | 20,400   | (1)          | *                           |
| Keith Mills   | 4,600  | (1)          | *                           |
| Philip D. Reinkemeyer   | 10,000   | (1)          | *                           |
| Amir Rosenthal  | 260,000  | (1)          | 3.2%                        |
| All directors and executive officers of Katy as a group<br>(16 persons) | 4,088,411  | (1)(2)(3)    | 46.0%                       |

\* Indicates beneficial ownership of 1% or less

**Convertible Preferred Stock**

| <b>Name</b> | <b>Amount and<br/>Nature<br/>of Beneficial<br/>Ownership</b> | <b>Notes</b> | <b>Percent<br/>of Class</b> |
|-------------|--|--------------|-----------------------------|
|-------------|--|--------------|-----------------------------|

|   |     |   |
|---|-----|---|
| Christopher W. Anderson   | (4) | * |
| Samuel P. Frieder   | (4) | * |
| Christopher Lacovara  | (4) | * |
| Shant Mardirossian  | (4) | * |
| All directors and executive officers of Katy as a group (4 persons) | (4) | * |

\* Indicates beneficial ownership of 1% or less

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

|                         |         |
|-------------------------|---------|
| William F. Andrews      | 6,000   |
| Robert M. Baratta       | 18,000  |
| Douglas A. Brady        | 50,000  |
| Daniel B. Carroll       | 23,000  |
| Wallace E. Carroll, Jr. | 23,000  |
| Anthony T. Castor III   | 500,000 |
| David C. Cooksey        | 30,000  |
| Joseph E. Mata          | 20,000  |
| Keith Mills             | 4,600   |
| Philip D. Reinkemeyer   | 10,000  |
| 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 W. Anderson, Samuel P. Frieder, Christopher Lacovara, and Shant Mardirossian 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. Anderson, Frieder, Lacovara, and Mardirossian disclaim beneficial ownership of these securities.

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

Under Section 16(a) of the Exchange Act of 1934, as amended, 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. These persons are also required by SEC regulations to furnish Katy with copies of all such forms they file. Based solely on a review of copies of the Section 16(a) reports furnished to Katy and written representations that no other reports were required, Katy believes that all persons subject to the reporting requirements of Section 16(a) filed the reports on a timely basis for the year ended December 31, 2006.

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**EXECUTIVE COMPENSATION**

**COMPENSATION COMMITTEE'S REPORT ON EXECUTIVE COMPENSATION**

The Compensation Committee of the Board of Directors (the Compensation Committee) presents the following executive compensation report for the 2006 fiscal year:

The Compensation Committee consists of Wallace E. Carroll, Jr., (Chairman), Christopher Lacovara and Christopher W. Anderson. A current copy of the Compensation Committee charter, as updated March 2007, is available on the Company's website at [www.katyindustries.com](http://www.katyindustries.com). The Committee makes decisions on executive officer compensation and reports its decisions to the Board. It also seeks the Board's approval on the Chief Executive Officer's compensation. The following summarizes the compensation practice and philosophy that was in effect at Katy for the fiscal year ended December 31, 2006. Modifications to such philosophy have been, and may continue to be, made.

The Compensation Committee believes that the total compensation program for executive officers is appropriately related to individual performance and Katy's performance (including Katy's financial results and stockholder value). The Compensation Committee monitors the executive compensation of comparable companies and believes that Katy's compensation program is competitive and provides appropriate incentives for Katy's executive officers to work towards continued improvement in Katy's overall performance.

***Compensation Committee of the Board of Directors***

Wallace E. Carroll, Jr. (Chairman)  
Christopher Lacovara  
Christopher W. Anderson

*The Compensation Committee Report on Executive Compensation shall not be deemed to be incorporated by reference as a result of any general incorporation by reference of this Proxy Statement or any part hereof in the Company's 2006 Annual Report to Stockholders, its Annual Report on Form 10-K for the year ended December 31, 2006 or any other filings with the SEC.*

**COMPENSATION DISCUSSION AND ANALYSIS**

***Overview***

Katy's Compensation Committee determines the objectives of our company's compensation program for executives and directors. The policies and procedures of the Compensation Committee are:

To review and approve annually corporate goals and objectives relevant to the Company's Chief Executive Officer (CEO); evaluate the CEO's performance in light of those goals and objectives; and determine and approve the CEO's compensation level based on this evaluation;

To review and make recommendations to the Board of Directors with respect to the compensation of all directors, officers and other key executives of the Company. This includes the review and approval annually, for the CEO and the senior executives of the Company, of (a) the annual base salary level, (b) the annual incentive opportunity level, (c) the long-term incentive opportunity level, (d) employment agreements, severance agreements and change in control agreements, and (e) any special or supplemental benefits;

To make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans; and

To prepare any report on executive compensation as required by the Securities and Exchange Commission ( SEC ).

Katy's compensation programs are designed to attract, retain and motivate our executive officers and other employees, to match annual and long-term cash and stock incentives to achievement of measurable corporate, business unit and individual performance objectives and to align executives' incentives with those of shareholders. We believe that in the long run, positive earnings growth has the highest correlation with long-term equity value. As

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a result, the primary objective of our compensation program is to increase the overall equity value of our company by rewarding sustainable growth in earnings. In this context, we seek to offer total compensation packages at levels we consider to be competitive in the marketplace in which we compete. We further seek to establish a compensation program that fosters a team approach to company profit improvement and provides higher levels of bonus compensation to more senior executives to illustrate the financial rewards of promotion.

## **EXECUTIVE COMPENSATION POLICY**

### ***Compensation Program Components***

Annual compensation for Katy's Chief Executive Officer and other executive officers (including the Named Executive Officers) consists of two cash compensation components: base salary and annual cash bonuses. A third component, stock options and stock appreciation rights (SARs), is currently used to attract new key employees. Overall, the Compensation Committee attempts to achieve approximately ten percent ownership (on a fully-diluted basis) via stock, options and SARs by directors and executive management.

These elements are designed to reward corporate and individual performance. Corporate performance is generally measured by reference to earnings before interest, taxes, depreciation and amortization (EBITDA) levels, certain operational metrics and adherence to corporate values. Individual performance is evaluated based on individual expertise, ethics and achievement of personal performance commitments. We have no pre-established policy or target for allocation between cash and non-cash components.

**Base Salary.** The base salaries for our executives are fixed annually and reflect job responsibility, the Compensation Committee's judgments of experience, effort and performance, and Katy's financial and market performance (in light of the competitive environment in which Katy operates). The base salary is also designed to provide our executive team with steady cash flow during the course of the year that is not contingent on short term variation in our operating performance. Annual base salaries are also influenced by comparable companies' compensation practices, as determined by Compensation Committee members and their experiences with other companies, so that Katy remains reasonably competitive in the market. However, it is not the practice of Katy's Compensation Committee to hire any outside consulting firms to confirm the compensation practices of comparable companies or to assess the Committee's own policies and practices. While competitive pay practices are important, the Compensation Committee believes that the most important considerations are individual merit and Katy's financial and market performance. In considering Katy's financial and market performance, the Compensation Committee reviews, among other things, net income, cash flow, working capital and revenues and share price performance relative to historical performance.

The base salaries for Katy's executive officers for the year ended December 31, 2006 were generally established in March 2006 by considering the performance and contribution of each officer.

**Annual Bonuses.** The annual cash bonuses we offer to our executive officers are intended to provide incentives to increase the Company's performance and the individual employee's performance. Evaluation of the Company's performance is based on the achievement of pre-established EBITDA goals, as set by the Compensation Committee at the beginning of the year. Evaluation of individual performance is based on attainment of personal performance goals and objectives.

Each year, the Compensation Committee establishes a potential bonus payout for each officer that is expressed as a percentage of the officer's base salary. In 2006, the bonus targets for the Named Executive Officers were as follows as percentage of base salary: Anthony T. Castor III 70%, Amir Rosenthal 50%, Douglas A. Brady 50% and Keith Mills 40%. Overall the weighting between the Company's and individual performance of the total potential bonus payout is 75% and 25%, respectively. An employee achieves the target bonus opportunity if he or she meets 100% of

pre-established performance goals. A higher or lower bonus is earned if performance exceeds or falls short of the target levels. For 2006, bonuses paid represent attainment of individual performance goals since Company-wide goals were not met.

Cash bonuses, as opposed to equity grants, are designed to more immediately reward annual performance against the key performance metrics for the Company. We believe that cash bonuses are an important factor in motivating our management team as a whole and as individual executives, in particular, to perform at their highest

## **Table of Contents**

level toward achievement of established goals. We also believe establishing cash bonus opportunities are an important factor in both attracting and retaining the services of qualified executives.

**Stock Options and Stock Appreciation Rights.** The third compensation component is a stock option and SAR program, implemented under the Company's Long-Term Incentive Plan, 1997 Long-Term Incentive Plan and 2002 Stock Appreciation Plan. Under Katy's current stock option and SAR program, the Board may provide compensation in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance units or shares, and other incentive awards. The Compensation Committee believes that the stock option and SAR programs currently should be used to attract and retain key employees. We further believe that vesting feature of our stock option and SAR programs provide an incentive for our executive officers to remain in our employment during the vesting period.

The awards are granted on the first date of employment at the exercise price of the Company's common stock at the close of business the date prior to first date of employment. The Company has no formal policy as to coordination of the release of material non-public information and grants of stock options and stock appreciation rights. Given the limitation of available stock options under the above plans, most awards are given in SARs. During 2006, no stock options or SARs were granted to Named Executive Officers. Stock options or SAR awards were given to newly-hired key operational management.

### ***Other Benefits***

We believe establishing competitive benefit packages for our employees, including our management team, is an important factor in attracting and retaining highly qualified personnel. Our benefit plans, such as our group health plan, are generally not performance-based and offer our employees affordable access to health care and the sense of security that accompanies that type of access. We also offer our management team a 401(k) plan with a company match that encourages the saving of money for retirement and other permissible needs on a tax-deferred basis.

We established a Supplemental Retirement and Deferral Plan (the Supplemental Deferral Plan), for the benefit of our management team and directors, which among other things, allows participants to voluntarily defer up to 100% of their annual bonus and up to 50% of their base salary until retirement or termination of his or her employment. Katy invests voluntary deferrals and profit sharing allocations at the employee's election in several investment alternatives offered by Katy. The above plan was frozen for any new officers in 2001. As a result, only Keith Mills participates in the Supplemental Deferral Plan.

### ***Termination Events***

We have provided our Named Executive Officers, who we consider to be our most senior executives, with severance benefits under certain circumstances to provide them with a sense of security while devoting their professional career to our company. As a general matter, we have defined cause to include (a) willful failure or neglect to perform the assigned duties; (b) the conviction of a felony, embezzlement or improper use of corporate funds by the employee; or (c) self dealing detrimental to the Company or any attempt to obtain personal profit from any transaction in which the Company has an interest.

We have defined change of control to include (i) a sale of 100% of Katy's outstanding capital stock, (ii) a sale of all or substantially all of Katy's operating subsidiaries or assets or (iii) a transaction or transactions in which any third party acquires Katy stock in an amount greater than that held by KKTY Holding Company and in which KKTY Holding Company relinquishes its right to nominate a majority of the candidates for election to the Board.

Our chief executive officer ( CEO ) has an employment agreement which include guaranteed severance payments in the event of his death or disability, termination without cause, a change of control, or if he leaves our employment for good reason. The other four Named Executive Officers have incorporated within their employment offer letters certain severance payments in the event of termination other than for cause.

In the event that our CEO was terminated due to his death or disability, he would be eligible to receive his base salary through the termination date and a pro-rata portion of his target bonus through the termination date based on a good faith estimate by the Board of Directors of the actual bonus which would have been payable for that year. In the

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event that our CEO is terminated without cause or left the company for good reason (as defined in his employment agreement), he would be eligible to receive his base salary and medical benefits for a period of eighteen months. If the company terminates the CEO or if the CEO terminates his employment due to a change in control, he would be eligible to receive his base salary and medical benefits for a period of twenty-four months. Additionally, our CEO would be required to execute a general release in our favor prior to receiving the severance payments.

In the event that our CFO was terminated without cause or a change of control event results in the CFO being terminated other than for cause, being required to relocate or having a substantial change in job responsibilities, he would be eligible to receive his base salary for a period of twelve months. The employment agreement between the Company and CFO does not include any termination benefits in the event of death, disability or termination by leaving the company for any other reason. Additionally, our CFO would be required to execute a general release in our favor prior to receiving the severance payments.

For the other three Named Executive Officers, termination benefits are consistent as described under the CFO's benefits, other than for Douglas A. Brady and David S. Rahilly, who would be eligible to receive their base salary for a period of six months. Additionally, these other three named executive officers would be required to execute a general release in our favor prior to receiving their severance payments.

Each executive's employment arrangement will terminate automatically upon his death. We may terminate each executive's employment if he becomes totally disabled. In addition, we may terminate the executive's employment for any other reason with or without cause (as defined in the employment agreement).

***Perquisites***

As a general matter, we do not offer any perquisites to any executive officer with an aggregate value in excess of \$25,000 because we believe we can better incent desired performance by directing compensation in the forms described above. However, we recognize that, from time to time, it may be appropriate to provide certain perquisites in order to help motivate and retain our executives. For example, we have agreed to reimburse our chief executive officer for automobile use (in lieu of a company vehicle) and the membership fees for a country club membership.

***Role of Executive Officers***

The Chief Executive Officer (Mr. Anthony T. Castor III) recommended to the Compensation Committee compensation for the other Named Executive Officers. Mr. Castor was not involved in determining his own compensation.

**Table of Contents****EXECUTIVE OFFICERS**

| <b>Name</b>           | <b>Age</b> | <b>Principal Occupation and Business Experience<br/>During the Past Five Years</b>   |
|-----------------------|------------|--|
| Douglas A. Brady      | 56         | 2005 to Present: Vice President, Operations, Katy<br>1997 to 2005: Vice President, Manufacturing Operations, Omnova Solutions, Inc., a producer of decorative and functional surfaces, emulsion polymers and specialty chemicals   |
| David C. Cooksey      | 62         | 2006 (February) to Present: Corporate Controller, Katy<br>2001 to 2006 (February): Corporate Director of Accounting and Assistant Treasurer, Katy<br>1999 to 2005: Chief Financial Officer of Continental Commercial Products, LLC, a wholly-owned subsidiary of Katy  |
| Robert A. Gail        | 55         | 2005 to Present: Vice President, Sales, Marketing and Customer Support, Katy<br>2002 to 2005: Vice President, Sales, Marketing and Customer Support of Continental Commercial Products, LLC, a wholly-owned subsidiary of Katy<br>1981 to 2002: Vice President, Sales, Rubbermaid Commercial Products, a plastics manufacturer |
| Joseph E. Mata        | 55         | 2005 to Present: Vice President, Human Resources, Katy<br>2001 to 2005: Corporate Director, Human Resources, Katy<br>1995 to 2005: Vice President, Human Resources, Continental Commercial Products, LLC, a wholly-owned subsidiary of Katy  |
| Keith Mills           | 62         | 2005 to Present: Vice President, International Operations, Katy<br>1995 to 2005: President of Glit/Gemtex, Ltd., a wholly-owned subsidiary of Katy<br>1984 to 2005: President of CCP International, a division of Glit/Gemtex, Ltd.  |
| Philip D. Reinkemeyer | 42         | 2005 to Present: Corporate Director of Financial Reporting and Treasurer, Katy<br>2002 to 2005: Vice President-Finance, Von Hoffmann Corporation, a major educational textbook printer<br>2000 to 2002: Director-Finance, Von Hoffmann Graphics, Inc.  |
| Amir Rosenthal        | 45         | 2001 to Present: Vice President, Chief Financial Officer, General Counsel and Secretary, Katy  |

The executive officers of Katy hold office until their successors are elected or appointed by the Board of Directors and duly qualified. Executive 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.

**Table of Contents****COMPENSATION TABLES AND NARRATIVE DISCLOSURE*****Summary Compensation Table***

The following table sets forth compensation information for our Executives for services rendered in all capacities to the Company in fiscal year 2006.

| Name and Principal Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$)(1) | Change<br>in<br>Pension<br>Value<br>and<br>Nonqualified<br>Non-Equity<br>Incentive<br>Plan Compensation |                                     | All Other<br>Compensation<br>(\$)(2) | Total<br>(\$) |
|---|------|----------------|---------------|-------------------------|-----------------------------|---|-------------------------------------|--------------------------------------|---------------|
|   |      |                |               |                         |                             | Deferred<br>Compensation<br>(\$)  | Termination<br>Compensation<br>(\$) |                                      |               |
| Anthony T. Castor III<br>President and<br>Chief Executive<br>Officer                              | 2006 | \$ 523,990     | \$            | \$                      | \$ 452,246                  | \$ 94,631   | \$                                  | \$ 159,356                           | \$ 1,230,223  |
| Amir Rosenthal<br>Vice President, Chief<br>Financial Officer,<br>General<br>Counsel and Secretary | 2006 | \$ 321,731     | \$            | \$                      | \$ 31,435                   | \$ 41,653   | \$                                  | \$ 30,854                            | \$ 425,673    |
| Douglas A. Brady<br>Vice President,<br>Operations   | 2006 | \$ 235,385     | \$            | \$                      | \$ 101,348                  | \$ 30,000   | \$                                  | \$ 17,170                            | \$ 383,903    |
| Keith Mills<br>Vice President,<br>International<br>Operations                                     | 2006 | \$ 242,704     | \$            | \$                      | \$ 18,249                   | \$ 24,436   | \$                                  | \$ 16,594                            | \$ 301,983    |
| David S. Rahilly (3)<br>President, Woods and<br>Vice President,<br>Global Sourcing                | 2006 | \$ 245,192     | \$            | \$                      | \$                          | \$  | \$                                  | \$ 15,567                            | \$ 260,759    |

(1) The value of the awards shown in the table represents the expense reported for financial reporting purposes in 2006 as described in Note 12 to the Company's consolidated financial statements included in the 2006 Annual Report on Form 10-K.

(2) The figures for the year ended December 31, 2006 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 2006 figures include the following amounts:

| Name                  | Auto Allowance | Other Allowances | Club Memberships | Group Term Life Insurance* | 401(k) Match | Total      |
|-----------------------|----------------|------------------|------------------|----------------------------|--------------|------------|
| Anthony T. Castor III | \$ 25,000      | \$ 2,400         | \$ 16,667        | \$ 109,895                 | \$ 5,394     | \$ 159,356 |
| Amir Rosenthal        | 10,800         | 13,905           |                  | 1,036                      | 5,113        | 30,854     |
| Douglas A. Brady      | 7,200          | 2,400            |                  | 2,176                      | 5,394        | 17,170     |
| Keith Mills           | 9,693          | 2,415            |                  | 664                        | 3,822        | 16,594     |
| David S. Rahilly      | 7,200          | 2,400            |                  | 3,496                      | 2,471        | 15,567     |

\* Group term life insurance amount for Anthony T. Castor III includes payments made on his behalf into an Executive Savings Plan and related gross up of income tax impact on these payments totaling \$106,605.

(3) David S. Rahilly resigned as of January 5, 2007.

#### *Grants of Plan-Based Awards*

There were no grants of plan-based awards made to a Named Executive Officer in the fiscal year ended December 31, 2006.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End Table**

The following table provides information concerning unexercised options and stock appreciation rights for each Named Executive Officer outstanding as of December 31, 2006.

| Name                  | Option Awards  |  | Option/SAR<br>Exercise<br>Price<br>(\$) | Option/SAR<br>Expiration<br>Date |
|-----------------------|--|--|---|----------------------------------|
|                       | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options/SARs<br>(#)<br>Exercisable | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options/SARs<br>(#)<br>Unexercisable |   |                                  |
| Anthony T. Castor III | 250,000(a)   | 500,000(a)   | \$ 2.75                                 | 05/26/15                         |
| Amir Rosenthal        | 200,000(b)   |  | \$ 3.90                                 | 09/04/11                         |
|                       | 50,000(b)  |  | \$ 3.45                                 | 08/22/12                         |
|                       | 33,333(c)  | 16,667(c)  | \$ 5.90                                 | 02/18/14*                        |
| Douglas A. Brady      | 50,000(d)  | 100,000(d)   | \$ 2.36                                 | 09/16/15                         |
| Keith Mills           | 1,600(e)   |  | \$ 19.56                                | 12/09/07                         |
|                       | 1,500(e)   |  | \$ 17.00                                | 01/08/09                         |
|                       | 1,500(e)   |  | \$ 9.87                                 | 12/10/09                         |
|                       | 18,450(e)  |  | \$ 3.15                                 | 11/22/12*                        |
| David S. Rahilly      | 50,000(b)  |  | \$ 3.22                                 | 10/08/11                         |
|                       | 25,000(b)  |  | \$ 3.45                                 | 08/22/12                         |

\* Denotes SAR grants.

- (a) One-third of the award vested on May 26, 2006 and two-thirds of the award will vest ratably on May 26, 2007 and 2008, respectively.
- (b) Options vested on March 10, 2004. For David S. Rahilly, the outstanding options at December 31, 2006 were forfeited 30 days after his resignation on January 5, 2007 in accordance with his stock option agreement.
- (c) Two-thirds of the award vested ratably on February 18, 2005 and 2006, respectively, and one-third of the award will vest on February 18, 2007.
- (d) One-third of the award vested on September 16, 2006 and two-thirds of the award will vest ratably on September 16, 2007 and 2008, respectively.
- (e) Options / SARs vested on December 9, 2001, January 8, 2003, December 10, 2003, and November 22, 2005, respectively.

**Options Exercises and Stock Vested**

None of the Named Executive Officers had options exercised or stock vested in 2006.

***Pension Benefits***

None of the Named Executive Officers participate in any of the Company's defined benefit plans.

**Table of Contents*****Nonqualified Deferred Compensation Table***

The following table provides information with respect to deferred compensation plans.

| <b>Name and Principal Position</b> | <b>Aggregate Earnings in Last FY (\$)</b> | <b>Aggregate Balance at Last FYE (\$)</b> |
|------------------------------------|---|---|
| Anthony T. Castor III              | \$  | \$  |
| Amir Rosenthal                     | \$  | \$  |
| Douglas A. Brady                   | \$  | \$  |
| Keith Mills                        | \$ 7,258                                  | \$ 151,325                                |
| David S. Rahilly                   | \$  | \$  |

In 1993 the Company's Board of Directors approved a retirement compensation program for certain officers and employees of the Company and a retirement compensation arrangement for the Company's then Chairman and Chief Executive Officer. The Board approved a total of \$3.5 million to fund such plans. Participants are allowed to defer 50% of their annual compensation as well as be eligible to participate in a profit sharing arrangement in which they vest over a five year period. In 2001, the Company limited participation to existing participants as well as discontinued any profit sharing arrangements. Participants can withdraw from the plan upon the latter of age 62 or termination from the Company. The obligation created by this plan is partially funded. Assets are held in a rabbi trust invested in various mutual funds. Gains and/or losses are earned by the participant. For the unfunded portion of the obligation, interest is accrued at 4% each year. No contributions were made by either the Company or the employees in 2006.

**AUDIT COMMITTEE REPORT**

The Audit Committee acts pursuant to a written charter, of which a current copy, as updated March 2007, is available on the Company's website at [www.katyindustries.com](http://www.katyindustries.com). As set forth in more detail in the charter, the Audit Committee's primary responsibilities are focused in four broad categories:

1. Recommend to the Board of Directors the appointment of the independent registered public accounting firm;
2. Consult with management or the independent registered public accounting firm regarding the audit scope and the audit plan;
3. Review and approve company financial statements; and
4. Review with management and the independent registered public accounting firm the adequacy of internal controls.

The Audit Committee has adopted pre-approval policies and procedures for audit and permissible non-audit procedures provided by all auditors (including our independent registered public accounting firm), consistent with the requirements of SEC regulations. The policy provides that all audit and non-audit services provided by all auditors must be individually pre-approved by the Audit Committee. In determining whether to pre-approve services, the Audit Committee considers whether such services are consistent with the rules of the SEC on auditor independence. The Audit Committee delegates to its members the authority to address any requests for pre-approval of services between

Audit Committee meetings. Any pre-approval determination by a member of the committee must be reported to the Audit Committee at its next scheduled meeting. There is no delegation of the Audit Committee's pre-approval authority to management. Requests or applications to provide services that require pre-approval by the Audit Committee must be submitted to the Audit Committee by both the independent registered public accounting firm and the Chief Financial Officer, Treasurer or Assistant Treasurer of the Company, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence. All services provided by Katy's independent registered public accounting firm were approved pursuant to Katy's pre-approval policies and procedures.

The Audit Committee has reviewed and discussed the audited financial statements for the year ending December 31, 2006 with management and the Company's independent registered public accounting firm, and has

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discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees). The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence from Katy and the Company's management. Additionally, the Audit Committee met exclusively with the independent registered public accounting firm in an executive session at each Audit Committee meeting. Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors, and the Board approved, that the audited financial statements be included in Katy's Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission.

### ***Audit Committee of the Board of Directors***

Daniel B. Carroll (Chairman)  
Christopher Lacovara  
William F. Andrews

*The Audit Committee Report shall not be deemed to be incorporated by reference as a result of any general incorporation by reference of this Proxy Statement or any part hereof in the Company's 2006 Annual Report to Stockholders, its Annual Report on Form 10-K for the year ended December 31, 2006 or any other filings with the SEC.*

## **OTHER INFORMATION**

### **STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Stockholders and other parties interested in communicating directly with whole Board of Directors or the non-management directors as a group may do so by writing to Chairman of the Board, Katy Industries, Inc., 2461 South Clark Street, Suite 630, Arlington, Virginia 22202.

### **PROPOSALS OF STOCKHOLDERS FOR 2008 ANNUAL MEETING**

In order to be considered for inclusion in Katy's proxy materials for the 2008 annual meeting of stockholders, any stockholder proposal must be addressed to Katy Industries, Inc., 2461 South Clark Street, Suite 630, Arlington, Virginia 22202, Attention: Secretary, and must be received on or prior to December 30, 2007. The 2008 annual stockholders meeting is tentatively scheduled for May 24, 2008.

If proposals are not received in time to be included in the proxy materials, Katy's bylaws set forth additional requirements and procedures regarding the submission of stockholder proposals for consideration at an annual meeting of stockholders. A stockholder proposal or nomination intended to be brought before the 2008 annual meeting must be received by the Secretary in writing not less than 50 days or more than 90 days prior to the 2008 annual meeting. A nomination or proposal that does not comply with such requirements and procedures will be disregarded.

### **OTHER MATTERS**

As of the date of this Proxy Statement, the Board of Directors knows of no matters to be presented at the annual meeting other than the proposals noted in this Proxy Statement. However, if other matters properly come before the annual meeting, it is the intention of the persons named on the accompanying proxy to vote on such matters in accordance with their best judgment. Katy's Board of Directors has adopted an advance notice bylaw provision

requiring that stockholder proposals to be made at any annual meeting be received by Katy not less than 50 days nor more than 90 days prior to the annual meeting. No such stockholder proposals were received for the 2006 annual meeting.

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**HOUSEHOLDING**

Unless we have received contrary instructions, the Company may send a single copy of its Annual Report, Proxy Statement and notice of annual meeting to any household at which two or more stockholders reside if the Company believes the stockholders are members of the same family. Each stockholder in the household will continue to receive a separate proxy card. This process, known as householding, reduces the volume of duplicate information received at your household and helps to reduce the Company's expenses.

If you would like to receive your own set of the Company's annual disclosure documents this year or in future years, follow the instructions described below. Similarly, if you share an address with another stockholder and together both of you would like to receive only a single set of the Company's annual disclosure documents, follow these instructions:

If your shares are registered in your own name, please contact Katy's corporate offices at 2461 South Clark Street, Suite 630, Arlington, Virginia 22202, Attn: Secretary, and inform us of your request.

If a bank, broker or other nominee holds your shares please contact your bank, broker or other nominee directly.

**ANNUAL REPORT ON FORM 10-K**

Upon written request to our corporate office at 2461 South Clark Street, Suite 630, Arlington, Virginia 22202, stockholders will be furnished without charge a copy of our Annual Report on Form 10-K for the year ended December 31, 2006, including the financial statements and the schedules thereto. A list of exhibits to the Annual Report on Form 10-K will be included in the copy of the Annual Report on Form 10-K. Any of the exhibits may be obtained by referring to the filings referenced in the exhibit listing, any of which may be obtained at the SEC's website, [www.sec.gov](http://www.sec.gov), or by written request to the Secretary.

Arlington, Virginia  
April 23, 2007

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**A vote FOR proposals 1 and 2 is recommended by the Board of Directors.** Mark Here  for Address Change or Comments **PLEASE SEE REVERSE SIDE**

**The shares represented hereby shall be voted as specified. If no specification is made, such shares shall be voted FOR proposals 1 and 2.**

| 1. Election of Directors:  | <b>FOR ALL</b>        | <b>WITHHOLD ALL</b>   | <b>FOR ALL EXCEPT*</b> |
|----------------------------|-----------------------|-----------------------|------------------------|
| Nominees:                  |                       |                       |                        |
| 01-Christopher W. Anderson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>  |
| 02-William F. Andrews      |                       |                       |                        |
| 03-Samuel P. Frieder       |                       |                       |                        |
| 04-Christopher Lacovara    |                       |                       |                        |
| 05-Shant Mardirossian      |                       |                       |                        |

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\*To withhold authority to vote for any individual nominee, write the nominee's name in the space provided above and mark the For All Except box.

|   |                              |                                  |                                  |
|---|------------------------------|----------------------------------|----------------------------------|
| 2. To ratify the selection of PricewaterhouseCoopers LLP as the independent public accountants of Katy. | FOR<br><input type="radio"/> | AGAINST<br><input type="radio"/> | ABSTAIN<br><input type="radio"/> |
|---|------------------------------|----------------------------------|----------------------------------|

Please check this box if you plan to attend the annual meeting.

Dated: \_\_\_\_\_, 2007

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(signature)

**Sign exactly as your name(s) appears on your stock certificate. If shares of stock stand of record in the names of two or more persons or in the name of husband and wife, whether as joint tenants or otherwise, both or all of such persons should sign the above Proxy. If shares of stock are held of record by a corporation, the Proxy should be executed in corporate name by the President or Vice President and the Secretary or Assistant Secretary, and the corporate seal should be affixed thereto. If shares of stock are held of record by any other**

**legal entity, the Proxy should be executed in the entity name by an authorized person. Executors or administrators or other fiduciaries who execute the above Proxy for a deceased stockholder should give their full title. Where applicable, indicate your official position or representative capacity. Please date the proxy.**

**^ FOLD AND DETACH HERE ^**

**YOUR VOTE IS IMPORTANT!**

**PLEASE SIGN, DATE AND RETURN THIS PROXY  
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**PROXY**

**KATY INDUSTRIES, INC.**

**PROXY**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS  
SOLICITED BY THE BOARD OF DIRECTORS**

The undersigned hereby appoints Anthony T. Castor III and Amir Rosenthal, and each of them, proxies, each with full power of substitution, to represent the undersigned and to vote all the shares of the common stock of Katy Industries, Inc. which the undersigned is entitled to vote at the annual meeting of stockholders of Katy Industries, Inc. to be held at the Holiday Inn Mt. Kisco, located at One Holiday Inn Drive, Mt. Kisco, New York on May 31, 2007 at 10:00 a.m., local time, and at any postponement or adjournment thereof (1) as hereinafter specified upon the proposals listed below and as more particularly described in Katy s Proxy Statement, receipt of which is hereby acknowledged, and (2) in their discretion upon any other matters as may properly come before the meeting and any postponement or adjournment thereof. If both Mr. Castor and Mr. Rosenthal are unable to serve in such capacity, for any reason, the undersigned hereby appoints their respective designees to act in such capacity. The undersigned hereby acknowledges receipt of Katy s 2006 Annual Report.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO SIGN, DATE AND PROMPTLY MAIL THIS PROXY IN THE RETURN ENVELOPE SO THAT YOUR STOCK MAY BE REPRESENTED AT THE MEETING.

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