

KATY INDUSTRIES INC
Form DEF 14A
April 23, 2007

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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.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- 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:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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3) Filing Party:

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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 Business Experience During the Past Five Years	Other Directorships	Period of Service as Katy Director
Christopher W. Anderson	32	2005 to Present: Principal of Kohlberg & Co., L.L.C., a U.S. private equity firm 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 2001 to Present: Chairman of Katy 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 2000 to Present: Chairman of Corrections Corp. of America, a private sector provider of detention and correction services 1997 to Present: Consultant with Kohlberg & Co., L.L.C., a U.S. private equity firm	Black Box Corporation Corrections Corp. of America TREX Corp. 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 1989 to 2006: Principal of Kohlberg & Co., L.L.C.	Stanadyne Corporation 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 Kohlberg Capital	2001 to Present

			Corporation	
Shant Mardirossian	39	1988 to 2006: Principal of Kohlberg & Co., L.L.C. 2005 to Present: Principal and CFO of Kohlberg & Co., L.L.C., a U.S. private equity firm 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:

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships	Period of Service as Katy Director
Robert M. Baratta	77	2001 to Present: Director of Katy	None	2001 to Present
Daniel B. Carroll(1)	71	2003 to Present: Private Investor 1994 to Present: Partner of Newgrange L.P., a components supplier to the global footwear industry 1985 to Present: Member and Manager of ATP Manufacturing, LLC, a manufacturer of molded poly-urethane components 1985 to 2003: Vice President of ATP Manufacturing, LLC	None	1994 to Present
Wallace E. Carroll, Jr.(1)	69	2005 to Present: Private Investor 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 2003 to 2005: President and Chief Executive Officer of Chromalox, Inc., a supplier of precision heating and control devices 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.

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.

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.

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.

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.

Fees Earned or Paid in Cash	Total
--	--------------

Name	(\$)	Option Awards (\$)(1)(2)	(\$)
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:

Name	Grant Date	Option/SAR Exercise Price	No. Vested	No. Not Vested	Total Outstanding
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

Total