KATY INDUSTRIES INC
Form 10-Q
May 03, 2016

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

FORM 10-Q

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

For the quarterly period ended: April 1, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______________ to________________

Commission File Number 001-05558

Katy Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	75-1277589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11840 Westline Industrial Drive, Suite 200, St Louis, Missouri	63146
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (314) 656-4321

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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

Class	Outstanding at April 29, 2016
Common Stock, $1 Par Value	7,951,176 Shares

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF APRIL 1, 2016 AND DECEMBER 31, 2015
(Amounts in Thousands)
(Unaudited)

	April 1, 2016	December 31, 2015
Assets		
Current Assets:		
Cash	$63	$ 53
Accounts receivable, net	14,171	12,211
Inventories, net	16,194	19,267
Other current assets	1,564	2,164
Total current assets	31,992	33,695
Other Assets:		
Goodwill	8,377	8,377
Intangibles, net	20,608	20,877
Other	1,761	1,747
Total other assets	30,746	31,001
Property and Equipment:		
Land and improvements	535	535
Buildings and improvements	6,696	6,269
Machinery and equipment	45,815	44,617
	53,046	51,421
Less - Accumulated depreciation	(37,122)	(36,646)
Property and equipment, net	15,924	14,775
Total assets	$78,662	$ 79,471

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF APRIL 1, 2016 AND DECEMBER 31, 2015
(Amounts in Thousands, Except Share Data)
(Unaudited)

	April 1, 2016	December 31, 2015
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	$21,725	$ 20,440
Book overdraft	486	918
Accrued compensation	1,077	1,149
Accrued expenses	7,271	7,142
Deferred revenue	93	130
Current maturities of long-term debt	1,663	1,143
Revolving credit agreement	23,093	23,969
Total current liabilities	55,408	54,891
Payable to Related Party	4,419	4,268
Long-Term Debt	21,093	21,435
Other Liabilities	7,686	7,615
Total liabilities	88,606	88,209
COMMITMENTS AND CONTINGENCIES (Note 9)		
Stockholders' Deficit		
15% Convertible preferred stock, $100 par value; authorized 1,200,000 shares; issued and outstanding 1,131,551 shares; liquidation value $113,155	108,256	108,256
Common stock, $1 par value; authorized 35,000,000 shares; issued 9,822,304 shares	9,822	9,822
Additional paid-in capital	27,110	27,110
Accumulated other comprehensive loss	(1,608)	(1,631)
Accumulated deficit	(132,087)	(130,858)
Treasury stock, at cost, 1,871,128 shares	(21,437)	(21,437)
Total stockholders' deficit	(9,944)	(8,738)
Total liabilities and stockholders' deficit	$78,662	$ 79,471

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED APRIL 1, 2016 AND MARCH 27, 2015
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended	
	April 1, 2016	March 27, 2015
Net sales	$ 28,394	$ 21,310
Cost of goods sold	23,774	18,105
Gross profit	4,620	3,205
Selling, general and administrative expenses	3,955	3,252
Severance, restructuring and related charges	526	1,600
Operating income (loss)	139	(1,647)
Interest expense	(1,392)	(209)
Other, net	30	28
Loss before income tax expense	(1,223)	(1,828)
Income tax expense	(6)	(8)
Net loss	$ (1,229)	$ (1,836)
Other comprehensive income (loss):		
Foreign currency translation	23	(58)
Total comprehensive loss	$ (1,206)	$ (1,894)
Loss per share of common stock - Basic	$ (0.15)	$ (0.23)
Loss per share of common stock - Diluted	$ (0.15)	$ (0.23)

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED APRIL 1, 2016 AND MARCH 27, 2015
(Amounts in Thousands)
(Unaudited)

	Three Months Ended	
	April 1, 2016	March 27, 2015
Cash flows from operating activities:		
Net loss	$ (1,229)	$ (1,836)
Depreciation	504	545
Amortization of intangible assets	268	47
Amortization of debt issuance costs	37	57
Stock-based compensation	32	20
Payment In Kind interest expense	280	-
Other	(20)	-
	(128)	(1,167)
Changes in operating assets and liabilities:		
Accounts receivable	(1,975)	(519)
Inventories	3,031	(2,522)
Other assets	479	(726)
Accounts payable	847	4,426
Accrued expenses	(114)	764
Payable to related party	125	125
Deferred revenue	(37)	(37)
Other liabilities	(304)	760
	2,052	2,271
Net cash provided by operations	1,924	1,104
Cash flows from investing activities:		
Capital expenditures	(748)	(362)
Net cash used in investing activities	(748)	(362)
Cash flows from financing activities:		
Net borrowings on revolving credit facility	(876)	(199)
Payment on capital lease obligation	(23)	-
Decrease in book overdraft	(432)	(349)
Direct costs associated with debt facilities	62	-
Net cash used in financing activities	(1,269)	(548)
Effect of exchange rate changes on cash	103	(117)
Net increase in cash	10	77
Cash, beginning of period	53	66
Cash, end of period	$ 63	$ 143
Supplemental cash flows disclosure:		
Interest paid	$ 843	$ 127
Income taxes paid	$ 1	$ 1
Supplemental information of non-cash investing and financing activities:		
Capital leases included in accrued expenses and other noncurrent liabilities	$ 473	$ -

Capital expenditures included in accounts payable	$ 429	$ -
Collateralized debt fees included in accrued expenses	$ 240	$ -

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Basis of Presentation – The condensed consolidated financial statements include the accounts of Katy Industries, Inc. and subsidiaries in which it has a greater than 50% voting interest or significant influence, collectively "Katy" or the "Company". All significant intercompany accounts, profits and transactions have been eliminated in consolidation. The Condensed Consolidated Balance Sheet at April 1, 2016 and the related Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended April 1, 2016 and March 27, 2015 and Cash Flows for the three months ended April 1, 2016 and March 27, 2015 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods. Interim results may not be indicative of results to be realized for the entire year. The condensed consolidated financial statements should be read in conjunction with the condensed consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Condensed Consolidated Balance Sheet as of December 31, 2015 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

Fiscal Year – The Company operates and reports using a 4-4-5 fiscal year which always ends on December 31. As a result, December and January do not typically consist of five and four weeks, respectively. The three months ended April 1, 2016 and March 27, 2015 consisted of 65 and 60 shipping days, respectively.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories – At April 1, 2016 and December 31, 2015, approximately 65% and 67%, respectively, of Katy's inventories were accounted for using the last-in, first-out ("LIFO") method of costing, while the remaining inventories were accounted for using the first-in, first-out ("FIFO") method. Current cost, as determined using the FIFO method, exceeded LIFO cost by $3.6 million at April 1, 2016 and December 31, 2015. The components of inventories are as follows as of April 1, 2016 and December 31, 2015, respectively (amounts in thousands):

	April 1, 2016	December 31, 2015
Raw materials	$10,031	$ 11,262
Finished goods	10,519	12,380
Inventory reserves	(727)	(738)
LIFO reserve	(3,629)	(3,637)
	$16,194	$ 19,267

Fair Value Measurement and Financial Instruments – Fair value is a market-based measurement, not an entity-specific measurement, defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Various valuation techniques exist for measuring fair value, including the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The authoritative accounting guidance for fair value provides a hierarchy that prioritizes these two inputs to valuation techniques used to measure fair value into three broad levels.

The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

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Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company believes that the fair value of its current assets and current liabilities approximates reported carrying values. The Company believes that the fair value of long-term debt approximates reported carrying value as it is repriced to current rates at frequent intervals. The Company determines the fair value of its pension assets annually primarily based on the fair value of underlying investments and market-based inputs (Level 2) and are evaluated by a third-party. The Company does not have any unobservable inputs (Level 3).

Share-Based Payment – Compensation cost recognized during the three months ended April 1, 2016 and March 27, 2015 includes compensation cost for outstanding stock appreciation rights ("SARs") as of April 1, 2016 and March 27, 2015 based on the April 1, 2016 and the March 27, 2015 fair values, respectively. The Company re-measures the fair value of SARs each reporting period until the award is settled and compensation expense is recognized each reporting period for changes in fair value and vesting.

Compensation expense is included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations. The components of compensation expense are as follows for the three months ended April 1, 2016 and March 27, 2015, respectively (amounts in thousands):

	Three Months Ended	
	April 1, 2016	March 27, 2015
Stock appreciation right expense	$ 32	$ 20

The fair value of SARs, a liability award, was estimated at April 1, 2016 and March 27, 2015 using a Black-Scholes option pricing model. The Company estimated the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The assumptions for expected term, volatility and risk-free rate are presented in the table below as of April 1, 2016 and March 27, 2015, respectively:

	April 1, 2016	March 27, 2015
Expected term (years)	0.4 - 4.6	1.4 - 4.6
Volatility	152.1% - 303.5%	230.1% - 332.5%
Risk-free interest rate	0.5% - 1.2%	0.4% - 1.3%

Accumulated Other Comprehensive Loss – The components of accumulated other comprehensive loss are foreign currency translation adjustments and pension and other postretirement benefits adjustments. The balance of the foreign currency translation adjustments account was $1.0 at April 1, 2016 and December 31, 2015. The balance of the pension and other postretirement benefits adjustments account was $0.7 million at April 1, 2016 and December 31, 2015.

Segment Reporting – Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision maker or group in deciding how to allocate resources and in assessing performance. The Company’s chief decision maker reviews the results of operations and requests for capital expenditures based on one industry segment: manufacturing, importing, distributing commercial cleaning, storage, and structural foam products. The Company’s entire revenue is generated through this segment.

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Reclassifications – During the three months ended April 1, 2016, we adopted Accounting Standards Update (“ASU”) 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). As shown in the table below, pursuant to the guidance in ASU 2015-03, we have reclassified unamortized debt issuance costs associated with our term loan (see Note 4 for detail) in our previously reported Condensed Consolidated Balance Sheets as of December 31, 2015 to conform to our presentation as of April 1, 2016 as follows (amounts in thousands):

	As presented December 31, 2015	Reclassifications	As adjusted December 31, 2015
Other assets	$ 3,882	$ (2,135)	$ 1,747
Current maturities of long-term debt	1,800	(657)	1,143
Long-term debt	22,913	(1,478)	21,435

Note 2. RECENT ACCOUNTING PRONOUNCEMENTS

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

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330),” authoritative guidance to simplify the subsequent measurement of inventory. Under this new standard, an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments in this guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not believe this will have any material impact on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,” which simplifies the reporting of deferred tax positions, requiring deferred tax assets and liabilities to be classified as noncurrent in the Consolidated Balance Sheets, as opposed to current and noncurrent classification under current GAAP. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company does not believe this will have any material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. ASU 2016-02 is effective for the Company on January 1, 2019. The Company is currently evaluating the impact to our future financial statements.

Note 3. LOSS PER SHARE

The condensed consolidated financial statements include basic and diluted loss per share. Diluted per share information is calculated by considering the impact of potential common stock on the weighted average shares outstanding. Potential common stock consists of (a) incremental shares that would be available for issuance upon the assumed exercise of stock options “in the money” based on the average stock price for the respective period and (b) convertible preferred shares, owned by Kohlberg & Co. LLC (see Note 8), accounted for using the “if converted” basis, which assumes their conversion to common stock at a ratio of 16.6:1.

As of April 1, 2016, all options had expired. As of March 27, 2015, no options were in the money and 6,000 options were out of the money. At April 1, 2016 and March 27, 2015, 1,131,551 convertible preferred shares were outstanding, which are in total, convertible into 18,859,183 shares of the Company’s common stock. Convertible preferred shares were not included in the calculation of diluted loss per share for the three months ended April 1, 2016 and March 27, 2015 because of their anti-dilutive impact as a result of the Company’s net loss position.

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Note 4. DEBT

Long-term debt consists of the following as of April 1, 2016 and December 31, 2015 (amounts in thousands):

	April 1, 2016	December 31, 2015
Revolving loans payable	$23,093	$ 23,969
Second Lien term loan	24,967	24,713
Debt issuance costs	(2,211)	(2,135)
Total debt	45,849	46,547
Less revolving loans payable, classified as current	(23,093)	(23,969)
Less current maturities	(2,400)	(1,800)
Less current debt issuance costs	737	657
Long-term debt	$21,093	$ 21,435

Original BMO Credit Agreement

On February 19, 2014, the Company and BMO Harris Bank N.A. ("BMO") entered into a Credit and Security Agreement (the "BMO Credit Agreement"), which provided the Company a $27.0 million revolving credit facility, including a $3.0 million sub-limit for letters of credit. The proceeds of the Company's initial borrowing under the BMO Credit Agreement were used to repay the PrivateBank Loan and Security Agreement (the "PB Loan Agreement"), finance the acquisition of Fort Wayne Holdings, Inc. ("FTW"), and pay certain fees and expenses related to the negotiation and consummation of the BMO Credit Agreement. All extensions of credit under the BMO Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company.

First Lien Credit Agreement

On April 7, 2015 the Company, Continental Commercial Products, LLC, a Delaware limited liability company, 2155735 Ontario Inc., an Ontario corporation, CCP Canada Inc., an Ontario corporation, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, wholly owned direct or indirect subsidiaries of the Company (the foregoing, including the Company, the "Borrowers"), and BMO, as lender entered into Amendment No. 1 to Credit and Security Agreement, among the Borrowers and BMO ("Amendment No. 1") to amend that certain Credit and Security Agreement, dated February 19, 2014 (the "Original BMO Credit Agreement"), among the Borrowers and BMO (the Original Credit Agreement, as amended by Amendment No. 1, the "BMO Credit Agreement") and to obtain the consent of BMO for the acquisition of a manufacturing facility in Tiffin, Ohio.

Pursuant to Amendment No. 1, the revolving credit facility under the Original BMO Credit Agreement was increased from an amount not to exceed $27.0 million to an amount not to exceed $33.0 million. The revolving credit facility under the BMO Credit Agreement continues to include a $3.0 million sub-limit for letters of credit. The proceeds advanced under the BMO Credit Agreement on the Closing Date were used to pay certain fees and expenses related to the negotiation and consummation of Amendment No. 1 and the acquisition of our Tiffin, Ohio manufacturing facility (as described in Note 10). Subject to the terms of an Intercreditor and Subordination Agreement, dated as of April 7, 2015 (the "Intercreditor Agreement"), between BMO and the SL Agent (as defined below), all extensions of credit under the BMO Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Borrowers.

The Original BMO Credit Agreement was further amended pursuant to Amendment No. 1 to extend the maturity date of the credit facility from February 17, 2017 to April 7, 2018. The borrowing base continues to be determined by eligible inventory, accounts receivable, machinery and equipment and owned real estate amounting to $26.9 million at April 1, 2016 and $27.3 million at December 31, 2015, respectively. The borrowing base under the BMO Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company's largest letters of credit relate to its casualty insurance programs. Total outstanding letters of credit were $1.6 million and $1.1 million at April 1, 2016 and December 31, 2015, respectively.

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Borrowings under the BMO Credit Agreement continue to bear interest at a per annum rate equal to, at the Borrower's option, (a) the Base Rate plus applicable Base Rate Margin, which varies from 0.50% to 1.00% based on average excess availability, or (b) reserve adjusted Eurodollar Rate plus the applicable Eurodollar Rate Margin, which varies from 1.50% to 2.00% based on average excess availability. The Base Rate is the greatest of (i) BMO Harris' prime commercial rate as in effect on such day, (ii) the sum of the Fed Funds rate for such day plus 0.5%, and (iii) the Eurodollar Rate for one month plus 1.50%. The Eurodollar Rate is the British Bankers Association LIBOR Rate, as published by Reuters (or other commercially available source) with a term equivalent to the applicable one, two, three or six month interest period. An unused commitment fee of 25 basis points per annum is payable quarterly on the average unused amount under the BMO Credit Agreement.

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

On December 15, 2015 the Company entered into Amendment No. 2 to the Credit and Security Agreement to amend the BMO Credit Agreement to redefine the definition of EBITDA to exclude certain non-recurring expenses associated with the Company's former Bridgeton, Missouri facility.

On March 30, 2016 the Company, entered into an Amendment No. 3 to the Credit and Security Agreement and Waiver (the "Amendment No. 3") to amend the BMO Credit Agreement. Amendment No. 3 provided the borrowers under the BMO Credit Agreement with additional flexibility under certain financial covenants in future periods ending in 2016 and waives certain covenant defaults for the quarter ended December 31, 2015. Further, Amendment No. 3 replaces the consolidated fixed charge coverage ratio covenant for the test period for the fiscal quarters ending on or closest to March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016 and provides for monthly testing of the minimum consolidated EBITDA and leverage ratio financial covenants for the monthly period ending on or closest to the last day of each month from March 2016 through September 2016 in lieu of quarterly testing during such period. The Company was in compliance with the financial covenants at April 1, 2016.

Amendment No. 3 provides that a termination fee shall be payable in the event that the revolving credit commitment under the BMO Credit Agreement is terminated prior to the revolving credit maturity date. The termination fee is equal to 2% of the revolving credit commitment of $33,000,000 if the revolving credit commitment is terminated on or before the first anniversary of Amendment No. 3 or 1% if the revolving credit commitment is thereafter terminated prior to the revolving credit maturity date under the BMO Credit Agreement.

The BMO Credit Agreement continues to require a lockbox agreement which provides receipts (subject to certain exceptions) to be swept daily to reduce borrowings outstanding. This provision in the BMO Credit Agreement causes the BMO Credit Agreement to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The Company does not expect to repay, or be required to repay, within one year, the balance of the BMO Credit Agreement, which is classified as a current liability. The BMO Credit Agreement does not expire or have a maturity date within one year, but rather has a final maturity date of April 7, 2018.

Second Lien Credit Facility

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

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

The term loan under the Second Lien Credit Agreement bears interest (i) at a cash interest rate of the LIBOR (One Month) Rate then in effect plus 9.5% per annum and (ii) a Payment in Kind (“PIK”) interest rate equal to 4.00% per annum. The PIK interest is added to long-term debt per the Second Lien Credit Agreement as it is not due until maturity. The maturity date of the credit facility under the Second Lien Credit Agreement is April 6, 2019.

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

On December 15, 2015, the Company entered into Amendment No. 1 to the Second Lien Credit Agreement ("Second Lien Amendment No. 1") to amend the Second Lien Credit Agreement to redefine the definition of EBITDA to exclude certain non-recurring expenses associated with the Company's former Bridgeton, Missouri facility.

On March 30, 2016, the SL Obligors entered into a Limited Waiver and Amendment to the Second Lien Credit Agreement (the "Second Lien Amendment No. 2") to amend the Second Lien Credit Agreement. The Second Lien Amendment No. 2 provides the borrowers under the Second Lien Credit Agreement with additional flexibility under certain financial covenants in future periods ending in 2016 and waives certain covenant defaults for the quarter ended December 31, 2015. Further, the Second Lien Amendment No. 2 replaces the consolidated fixed charge coverage ratio covenant for the test period for the fiscal quarters ending on or closest to March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016 and provides for monthly testing of the minimum consolidated EBITDA and leverage ratio financial covenants for the monthly period ending on or closest to the last day of each month from March 2016 through September 2016 in lieu of quarterly testing during such period. The Company was in compliance with the financial covenants at April 1, 2016.

All of the debt under the BMO Credit Agreement and Second Lien Credit Agreement are re-priced to current rates at frequent intervals. Therefore, its fair value approximates their carrying value at April 1, 2016. For the three months ended April 1, 2016 and March 27, 2015, the Company had amortization of debt issuance costs, included within interest expense, of $0.2 million and $0.1 million, respectively.

In February 2016, the Company entered into a capital lease agreement to acquire certain manufacturing equipment. The Company is obligated to make sixty monthly payments of $8,818. At the inception of the lease the Company recorded an asset and a capital lease obligation equal to the present value of minimum lease payments equal to approximately $0.5 million. At April 1, 2016 the current and long term capital lease obligation of $0.1 million and $0.4 million were recorded in accrued expenses and other noncurrent liabilities on the Condensed Consolidated Balance Sheets. Aggregate remaining scheduled maturities of the capital lease obligation as of April 1, 2016 are as follows (amounts in thousands):

Nine months ended December 31, 2016	$71
Year ended December 31, 2017	106
Year ended December 31, 2018	106
Year ended December 31, 2019	106
Year ended December 31, 2020	106
Thereafter	7
Amount representing interest payments	(52)
Total capital lease obligation	$450

Note 5. RETIREMENT BENEFIT PLANS

Certain subsidiaries have frozen pension plans covering substantially all of their employees. These plans are noncontributory, defined benefit pension plans. The benefits to be paid under these plans are generally based on employees' retirement age and years of service. The Company's funding policies, subject to the minimum funding requirements of employee benefit and tax laws and as determined on an actuarial basis, provide the plans with assets sufficient to meet the benefit obligations. Plan assets consist primarily of fixed income investments, corporate equities and government securities. The Company also provides certain health care and life insurance benefits for some of its retired employees. The postretirement health plans are unfunded.

Information regarding the Company's net periodic benefit cost for pension and other postretirement benefit plans for the three months ended April 1, 2016 and March 27, 2015 is as follows (amounts in thousands):

	Pension Benefits Three Months Ended		Other Benefits Three Months Ended	
	April 1, 2016	March 27, 2015	April 1, 2016	March 27, 2015
Components of net periodic benefit cost:				
Interest cost	$ 15	$ 15	$ 13	$ 12
Expected return on plan assets	(16)	(16)	-	-
Amortization of net loss	10	12	5	8
Net periodic benefit cost	$ 9	$ 11	$ 18	$ 20

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During the three months ended April 1, 2016, the Company made contributions of $15,000 to the pension plans. The Company expects to contribute an additional $46,000 to pension plans throughout the remainder of 2016. The Company uses a December 31 measurement date for its pension and other postretirement benefit plans. The fair value of plan assets was determined by inputs to the valuation which include quoted prices for similar assets in active markets that are observable either directly or indirectly (Level 2 inputs). The Company utilized a third-party to evaluate the fair value of the plan assets and reviews all applicable inputs and calculations for purposes of valuing the plan's assets.

Note 6. STOCK INCENTIVE PLANS

The Company has various stock incentive plans that provide for the granting of stock options, nonqualified stock options, SARs, restricted stock, performance units or shares and other incentive awards to certain employees and directors. SARs entitle the holder to receive cash, upon vesting, equal to the excess of the fair market value of a share of the Company's common stock on the date of exercise over the fair market value of such share on the date granted. SARs have been granted at or above the market price of the Company's stock at the date of grant, typically vest over periods up to three years, and expire ten years from the date of issue. No more than 50% of the cumulative number of vested SARs held by an employee can be exercised in any one calendar year.

As of April 1, 2016 there were 35,000 outstanding SARs and there was no activity during the three months ended April 1, 2016. At April 1, 2016 and December 31, 2015, the aggregate liability related to SARs was $64,000 and $32,000, respectively, and is included in accrued expenses in the Condensed Consolidated Balance Sheets.

Note 7. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company and its subsidiaries are generally no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2011.

As of April 1, 2016, the Company had deferred tax assets, net of deferred tax liabilities, of $80.6 million subject to a valuation allowance of $80.7 million. As of December 31, 2015, the Company had deferred tax assets, net of deferred tax liabilities, of $80.1 million subject to a valuation allowance of $80.2 million. Domestic net operating loss ("NOL") carry forwards comprised $64.9 million and $64.4 million of the deferred tax assets as of April 1, 2016 and December 31, 2015, respectively. Katy's history of operating losses in many of its taxing jurisdictions provides significant negative evidence with respect to the Company's ability to generate future taxable income. The valuation allowance relates to federal, state and foreign net operating loss carry-forwards, foreign and domestic tax credits, and certain other deferred tax assets to the extent they exceed deferred tax liabilities.

Note 8. RELATED PARTY TRANSACTIONS

Kohlberg & Co., L.L.C. ("Kohlberg"), whose affiliate holds all 1,131,551 shares of the Company's Convertible Preferred Stock, provides ongoing management oversight and advisory services to the Company. At April 1, 2016 and December 31, 2015, the Company owed Kohlberg $3.9 million and $3.8 million, respectively, for these services, which is recorded in noncurrent liabilities on the Condensed Consolidated Balance Sheets. The Company incurs expense of $0.5 million per year for these services. For each of the three months ended April 1, 2016 and March 27, 2015, $0.1 million is recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss for these services.

In February 2014, loans of $0.1 million each were received from two directors of the Company, and a loan of $0.2 million was received from Kohlberg. In connection with these loans, the Company entered into subordinated promissory notes with these individuals and Kohlberg, respectively. These notes were used to finance the acquisition of FTW (as defined in Note 10) and were amended in the year ended December 31, 2015 to mature on December 31, 2019. The notes accrue interest at a rate of 15% per year, which will be paid by capitalizing such interest and adding such capitalized interest to the principal amount of the subordinated notes. PIK interest was $0.1 million as of April 1, 2016 and December 31, 2015. The loans and PIK interest are recorded in noncurrent liabilities on the Condensed Consolidated Balances Sheets.

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Note 9. COMMITMENTS AND CONTINGENCIES

General Environmental Claims

The Company and certain of its current and former direct and indirect corporate predecessors, subsidiaries and divisions are involved in remedial activities at certain present and former locations and have been identified by the United States Environmental Protection Agency (“EPA”), state environmental agencies and private parties as potentially responsible parties (“PRPs”) at a number of hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act (“Superfund”) or equivalent state laws and, as such, may be liable for the cost of cleanup and other remedial activities at these sites. Responsibility for cleanup and other remedial activities at a Superfund site is typically shared among PRPs based on an allocation formula. Under the federal Superfund statute, parties could be held jointly and severally liable, thus subjecting them to potential individual liability for the entire cost of cleanup at the site. Based on its estimate of allocation of liability among PRPs, the probability that other PRPs, many of whom are large, solvent, public companies, will fully pay the costs apportioned to them, currently available information concerning the scope of contamination, estimated remediation costs, estimated legal fees and other factors, the Company has recorded and accrued for environmental liabilities in amounts that it deems reasonable and believes that any liability with respect to these matters in excess of the accruals will not be material. The ultimate costs will depend on a number of factors and the amount currently accrued represents management’s best current estimate on an undiscounted basis of the total costs to be incurred. The Company expects this amount to be substantially paid over the next five to ten years.

Other Claims

There are a number of product liability, asbestos and workers’ compensation claims pending against the Company and its subsidiaries. Many of these claims are proceeding through the litigation process and the final outcome will not be known until a settlement is reached with the claimant or the case is adjudicated. The Company estimates that it can take up to ten years from the date of the injury to reach a final outcome on certain claims. With respect to the product liability, asbestos and workers’ compensation claims, the Company has provided for its share of expected losses beyond the applicable insurance coverage, including those incurred but not reported to the Company or its insurance providers, which are developed using actuarial techniques. Such accruals are developed using currently available claim information, and represent management’s best estimates, including estimated legal fees, on an undiscounted basis. The ultimate cost of any individual claim can vary based upon, among other factors, the nature of the injury, the duration of the disability period, the length of the claim period, the jurisdiction of the claim and the nature of the final outcome.

Although management believes that the actions specified above in this section individually and in the aggregate are not likely to have outcomes that will have a material adverse effect on the Company’s financial position, results of operations or cash flow, further costs could be significant and will be recorded as a charge to operations when, and if, current information dictates a change in management’s estimates.

Note 10. BUSINESS ACQUISITIONS

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

The accompanying Condensed Consolidated Statements of Income for the three months ended March 27, 2015 do not include any revenues or expenses related to the acquisition prior to the closing date. The following unaudited pro forma condensed consolidated financial information is presented as if the Tiffin, Ohio acquisition had occurred at the beginning of the period presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisition had actually occurred during those periods, or the results that may be obtained in the future as a result of the acquisition.

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	Three Months Ended March 27, 2015
Net Sales	$ 27,256
Gross profit	4,778
Net income	(160)
Average common shares outstanding - Basic	7,951
Dilutive effect of convertible preferred stock	-
Average common shares outstanding - Diluted	7,951
Loss per share of common stock - Basic	$ (0.02)
Loss per share of common stock - Diluted	$ (0.02)

Note 11. SEVERANCE, RESTRUCTURING AND RELATED CHARGES

In the first quarter of 2015, the Company committed to a plan to move its manufacturing facility from Bridgeton, Missouri to Jefferson City, Missouri. Management estimates the resulting severance, restructuring and related charges will be approximately $6.2 million, of which $1.6 million will be for contract termination costs, $0.7 million will be for severance costs and $3.9 million will be for other relocation associated costs. The relocation is expected to be completed by the end of the second quarter of 2016. The charges for the three months ended and total charges incurred to date are outlined in the below table (amounts in thousands):

	Three Months Ended April 1, 2016	Charges incurred to Date
Contract termination costs	$ -	$ 1,600
Severance costs	-	651
Other associated costs	526	3,868
Total restructuring costs	$ 526	$ 6,119

The restructuring charges accrued for at April 1, 2016 are outlined in the below table (amounts in thousands):

	Contract Termination Costs	Severance Costs	Other Associated Costs	Total
Restructuring liabilities at January 1, 2016	$ -	$ 112	$ 663	$775
Additions	-	-	526	526
Payments	-	(112)	(645)	(757)
Other	-	-	-	-
Restructuring liabilities at April 1, 2016	$ -	$ -	$ 544	$544

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report and the information incorporated by reference in this report contain various "forward-looking statements" as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934, as amended. The forward-looking statements are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. We have based these forward-looking statements on current expectations and projections about future events and trends affecting the financial condition of our business. Additional information concerning these and other risks and uncertainties is included in Item 1A under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. Words and phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "may," "should," "will," "continue," "is subje are intended to identify forward-looking statements. The results referred to in forward-looking statements may differ materially from actual results because they involve estimates, assumptions and uncertainties. Forward-looking statements included herein are as of the date hereof and we undertake no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. All forward-looking statements should be viewed with caution. These forward-looking statements are subject to risks and uncertainties that may lead to results that differ materially from those expressed in any forward-looking statement made by us or on our behalf, including, among other things:

- Increases in the cost of, or in some cases continuation of, the current price levels of thermoplastic resins, paper board packaging, corn, cotton and other raw materials.
- Our inability to realize anticipated cost savings from the move of our manufacturing facility from Bridgeton, Missouri to Jefferson City, Missouri.
- Our inability to reduce product costs, including manufacturing, sourcing, freight, and other product costs.
- Our inability to protect our intellectual property rights adequately.
- Our inability to expand our customer base and increase corresponding revenues.
- Our inability to achieve product price increases, especially as they relate to potentially higher raw material costs.
- Unfavorable economic or business conditions, as well as our exposure to the credit risks of our customers and distributors, which may reduce our sales or make it difficult to collect accounts receivable.
- Competition from foreign and domestic competitors.
- The potential impact of rising interest rates on our debt outstanding under our debt agreements.
- Our inability to meet covenants associated with our debt agreements.
- Our inability to access funds under our current loan agreements or refinance our loan agreements given the current instability in the credit markets.
-

- Our failure to identify, and promptly and effectively remediate, any material weaknesses or significant deficiencies in our internal control over financial reporting.

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

- Labor issues, including union activities that require an increase in production costs or lead to a strike, thus impairing production and decreasing sales, and labor relations issues at entities involved in our supply chain, including both suppliers and those involved in transportation and shipping.

- Changes in significant laws and government regulations affecting environmental compliance and income taxes.

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OVERVIEW

We are a manufacturer, importer and distributor of commercial cleaning and storage products and a contract manufacturer of structural foam products. Our commercial cleaning products are sold primarily to industrial, janitorial/sanitary maintenance and foodservice distributors that supply end users such as restaurants, hotels, healthcare facilities and schools. Our storage products are primarily sold through major home improvement and mass market retail outlets. Our contract manufactured structural foam services are primarily sold through the automotive aftermarket and material handling markets.

RESULTS OF OPERATIONS

Three Months Ended April 1, 2016 Versus Three Months Ended March 27, 2015

Net sales increased 33.2% from $21.3 million during the three months ended March 27, 2015 to $28.4 million during the three months ended April 1, 2016. The increase was a result of the Tiffin, Ohio business acquisition, which contributed an incremental $6.5 million in net sales. Gross margin was 16.3% for the three months ended April 1, 2016, an increase of 130 basis points from the same period a year ago. The increase was primarily a result of lower operating costs associated with the relocation of our Bridgeton, Missouri facility to Jefferson City, Missouri and reduced raw material prices during the three months ended April 1, 2016. As a result of the increase in sales and an increase in gross margin, our gross profit increased $1.4 million from $3.2 million to $4.6 million.

Selling, general and administrative expenses increased $0.7 million to $4.0 million for the three months ended April 1, 2016 from $3.3 million for the same period a year ago. The increase was primarily due to the derecognition of a deferred lease obligation no longer owed as a result of our termination of the lease for our Bridgeton, Missouri facility during the three months ended March 27, 2015.

Severance, restructuring and related charges decreased $1.1 million to $0.5 million for the three months ended April 1, 2016 as compared to $1.6 million for the three months ended March 27, 2015 due to the relocation of our Bridgeton, Missouri facility to Jefferson City, Missouri.

Operating income increased from an operating loss of $1.6 million during the three months ended March 27, 2015 to operating income of $0.1 million during the three months ended April 1, 2016 primarily due to the reduction of severance, restructuring and related charges and increased gross profit. With the exclusion of one-time items related to our facility relocation, operating income was $0.7 million for the three months ended April 1, 2016 versus an operating loss of $0.7 million for the three months ended March 27, 2015.

Interest expense increased by $1.2 million during the three months ended April 1, 2016 as compared to the three months ended March 27, 2015 as a result of the increased borrowings under the BMO Credit Agreement and Second Lien Credit Agreement (See Note 4) which were entered into in the second quarter of 2016.

Overall, we reported a net loss of $1.2 million, or $0.15 per basic and diluted share, for the three months ended April 1, 2016, as compared to a net loss of $1.8 million, or $0.23 per basic and diluted share, for the three months ended March 27, 2015. With the exclusion of one-time items related to our facility relocation, net loss was $0.6 million for the three months ended April 1, 2016 versus a net loss of $1.0 million for the three months ended March 27, 2015.

LIQUIDITY AND CAPITAL RESOURCES

We require funding for working capital needs and capital expenditures. We believe that our cash flow from operations and the use of available borrowings under the BMO Credit Agreement provides sufficient liquidity for our operations going forward. As of April 1, 2016, we had cash of $0.1 million and outstanding checks of $0.5 million as compared to cash of $0.1 million and outstanding checks of $0.9 million at December 31, 2015. Our unused borrowing availability at April 1, 2016 under the BMO Credit Agreement was $2.3 million. As of December 31, 2015, we had unused borrowing availability of $2.2 million.

Original BMO Credit Agreement

On February 19, 2014, the Company and BMO Harris Bank N.A. (“BMO”) entered into a Credit and Security Agreement (the “BMO Credit Agreement”), which provided the Company a $27.0 million revolving credit facility, including a $3.0 million sub-limit for letters of credit. The proceeds of the Company’s initial borrowing under the BMO Credit Agreement were used to repay the PrivateBank Loan and Security Agreement (the “PB Loan Agreement”), finance the acquisition of Fort Wayne Holdings, Inc. (“FTW”), and pay certain fees and expenses related to the negotiation and consummation of the BMO Credit Agreement. All extensions of credit under the BMO Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company.

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First Lien Credit Agreement

On April 7, 2015 the Company, Continental Commercial Products, LLC, a Delaware limited liability company, 2155735 Ontario Inc., an Ontario corporation, CCP Canada Inc., an Ontario corporation, FTW Holdings, Inc., a Delaware corporation, and Fort Wayne Plastics, Inc., an Indiana corporation, wholly owned direct or indirect subsidiaries of the Company (the foregoing, including the Company, the "Borrowers"), and BMO, as lender entered into Amendment No. 1 to Credit and Security Agreement, among the Borrowers and BMO ("Amendment No. 1") to amend that certain Credit and Security Agreement, dated February 19, 2014 (the "Original BMO Credit Agreement"), among the Borrowers and BMO (the Original Credit Agreement, as amended by Amendment No. 1, the "BMO Credit Agreement") and to obtain the consent of BMO for the acquisition of a manufacturing facility in Tiffin, Ohio.

Pursuant to Amendment No. 1, the revolving credit facility under the Original BMO Credit Agreement was increased from an amount not to exceed $27.0 million to an amount not to exceed $33.0 million. The revolving credit facility under the BMO Credit Agreement continues to include a $3.0 million sub-limit for letters of credit. The proceeds advanced under the BMO Credit Agreement on the Closing Date were used to pay certain fees and expenses related to the negotiation and consummation of Amendment No. 1 and the acquisition of our Tiffin, Ohio manufacturing facility (as described in Note 10). Subject to the terms of an Intercreditor and Subordination Agreement, dated as of April 7, 2015 (the "Intercreditor Agreement"), between BMO and the SL Agent (as defined below), all extensions of credit under the BMO Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Borrowers.

The Original BMO Credit Agreement was further amended pursuant to Amendment No. 1 to extend the maturity date of the credit facility from February 17, 2017 to April 7, 2018. The borrowing base continues to be determined by eligible inventory, accounts receivable, machinery and equipment and owned real estate amounting to $26.9 million at April 1, 2016 and $27.3 million at December 31, 2015, respectively. The borrowing base under the BMO Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company's largest letters of credit relate to its casualty insurance programs. Total outstanding letters of credit were $1.6 million and $1.1 million at April 1, 2016 and December 31, 2015, respectively.

Borrowings under the BMO Credit Agreement continue to bear interest at a per annum rate equal to, at the Borrower's option, (a) the Base Rate plus applicable Base Rate Margin, which varies from 0.50% to 1.00% based on average excess availability, or (b) reserve adjusted Eurodollar Rate plus the applicable Eurodollar Rate Margin, which varies from 1.50% to 2.00% based on average excess availability. The Base Rate is the greatest of (i) BMO Harris' prime commercial rate as in effect on such day, (ii) the sum of the Fed Funds rate for such day plus 0.5%, and (iii) the Eurodollar Rate for one month plus 1.50%. The Eurodollar Rate is the British Bankers Association LIBOR Rate, as published by Reuters (or other commercially available source) with a term equivalent to the applicable one, two, three or six month interest period. An unused commitment fee of 25 basis points per annum is payable quarterly on the average unused amount under the BMO Credit Agreement.

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

On December 15, 2015 the Company entered into Amendment No. 2 to the Credit and Security Agreement to amend the BMO Credit Agreement to redefine the definition of EBITDA to exclude certain non-recurring expenses associated with the Company's former Bridgeton, Missouri facility.

On March 30, 2016 the Company, entered into an Amendment No. 3 to the Credit and Security Agreement and Waiver (the "Amendment No. 3") to amend the BMO Credit Agreement. Amendment No. 3 provided the borrowers under the BMO Credit Agreement with additional flexibility under certain financial covenants in future periods ending in 2016 and waives certain covenant defaults for the quarter ended December 31, 2015. Further, Amendment No. 3 replaces the consolidated fixed charge coverage ratio covenant for the test period for the fiscal quarters ending on or closest to March 31, 2016, June 30, 2016, September 30, 2016 and December 31, 2016 and provides for monthly testing of the minimum consolidated EBITDA and leverage ratio financial covenants for the monthly period ending on or closest to the last day of each month from March 2016 through September 2016 in lieu of quarterly testing during such period. The Company was in compliance with the financial covenants at April 1, 2016.

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Amendment No. 3 provides that a termination fee shall be payable in the event that the revolving credit commitment under the BMO Credit Agreement is terminated prior to the revolving credit maturity date. The termination fee is equal to 2% of the revolving credit commitment of $33,000,000 if the revolving credit commitment is terminated on or before the first anniversary of Amendment No. 3 or 1% if the revolving credit commitment is thereafter terminated prior to the revolving credit maturity date under the BMO Credit Agreement.

The BMO Credit Agreement continues to require a lockbox agreement which provides receipts (subject to certain exceptions) to be swept daily to reduce borrowings outstanding. This provision in the BMO Credit Agreement causes the BMO Credit Agreement to be classified as a current liability, per guidance in the Accounting Standards Codification established by the Financial Accounting Standards Board. The Company does not expect to repay, or be required to repay, within one year, the balance of the BMO Credit Agreement, which is classified as a current liability. The BMO Credit Agreement does not expire or have a maturity date within one year, but rather has a final maturity date of April 7, 2018.

Second Lien Credit Facility

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

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

The term loan under the Second Lien Credit Agreement bears interest (i) at a cash interest rate of the LIBOR (One Month) Rate then in effect plus 9.5% per annum and (ii) a Payment in Kind ("PIK") interest rate equal to 4.00% per annum. The PIK interest is added to long-term debt per the Second Lien Credit Agreement as it is not due until maturity. The maturity date of the credit facility under the Second Lien Credit Agreement is April 6, 2019.

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

On December 15, 2015, the Company entered into Amendment No. 1 to the Second Lien Credit Agreement ("Second Lien Amendment No. 1") to amend the Second Lien Credit Agreement to redefine the definition of EBITDA to exclude certain non-recurring expenses associated with the Company's former Bridgeton, Missouri facility.

On March 30, 2016, the SL Obligors entered into a Limited Waiver and Amendment to the Second Lien Credit Agreement (the "Second Lien Amendment No. 2") to amend the Second Lien Credit Agreement. The Second Lien Amendment No. 2 provides the borrowers under the Second Lien Credit Agreement with additional flexibility under certain financial covenants in future periods ending in 2016 and waives certain covenant defaults for the quarter ended December 31, 2015. Further, the Second Lien Amendment No. 2 replaces the consolidated fixed charge coverage ratio covenant for the test period for the fiscal quarters ending on or closest to March 31, 2016, June 30, 2016, September

30, 2016 and December 31, 2016 and provides for monthly testing of the minimum consolidated EBITDA and leverage ratio financial covenants for the monthly period ending on or closest to the last day of each month from March 2016 through September 2016 in lieu of quarterly testing during such period. The Company was in compliance with the financial covenants at April 1, 2016.

All of the debt under the BMO Credit Agreement and Second Lien Credit Agreement are re-priced to current rates at frequent intervals. Therefore, its fair value approximates their carrying value at April 1, 2016. For the three months ended April 1, 2016, the Company had amortization of debt issuance costs, included within interest expense, of $0.2 million. For the three months ended March 27, 2015, the Company had amortization of debt issuance costs, included within interest expense, of $0.1 million.

In February 2016, the Company entered into a capital lease agreement to acquire certain manufacturing equipment. The Company is obligated to make sixty monthly payments of $8,818. At the inception of the lease the Company recorded an asset and a capital lease obligation equal to the present value of minimum lease payments equal to approximately $0.5 million. At April 1, 2016 the current and long term capital lease obligation of $0.1 million and $0.4 million were recorded in accrued expenses and other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

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Cash Flows

Cash used in operating activities before changes in operating assets and liabilities was $1.2 million in the three months ended March 27, 2015 as compared to $0.1 million in the same period of 2016. Changes in operating assets and liabilities from continuing operations provided $2.1 million in the three months ended April 1, 2016 as compared to $2.3 million in the same period of 2015.

Cash flows used by investing activities of $0.7 million in the three months ended April 1, 2016 were primarily due to capital expenditures related to the relocation of the Bridgeton, Missouri facility to Jefferson City, Missouri.

Cash flows used by financing activities of $1.3 million in the three months ended April 1, 2016 were due to a reduction of $0.8 million in our bank borrowings, net of debt issuance costs since December 31, 2015, primarily due to the timing of needed borrowings.

OFF-BALANCE SHEET ARRANGEMENTS

As of April 1, 2016, the Company had no off-balance sheet arrangements.

ENVIRONMENTAL AND OTHER CONTINGENCIES

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

CRITICAL ACCOUNTING POLICIES

We disclosed details regarding certain of our critical accounting policies in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2015 (Part II, Item 7). There have been no material changes to these policies as of April 1, 2016 except as noted below.

During the three months ended April 1, 2016, we adopted Accounting Standards Update ("ASU") 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). As shown in the table below, pursuant to the guidance in ASU 2015-03, we have reclassified unamortized debt issuance costs associated with our term loan (see Note 4 for detail) in our previously reported Condensed Consolidated Balance Sheets as of December 31, 2015 to conform to our presentation as of April 1, 2016 as follows (amounts in thousands):

	As presented December 31, 2015	Reclassifications	As adjusted December 31, 2015
Other assets	$ 3,882	$ (2,135)	$ 1,747
Current maturities of long-term debt	1,800	(657)	1,143
Long-term debt	22,913	(1,478)	21,435

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the Securities and Exchange Commission ("SEC") is reported within the time periods specified in the SEC's rules, regulations and related forms, and that such information is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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We carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Exchange Act) as of the end of the period of our report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended April 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are described in Part I, Item 1A of our Annual Report on Form 10-K, filed on March 30, 2016. There has been no material change in those risk factors.

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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Our common stock is quoted on the OTC Pink tier of the OTC Markets Group, an inter-dealer quotation and trading system, under the symbol "KATY". Previously, our common stock was quoted on the OTC Bulletin Board under the symbol "KATY". OTC Pink offers a quotation service to companies that are unable to list their securities on an exchange or for companies, such as ours, whose securities are not eligible for quotation on the OTC Bulletin Board. The requirements for quotation on the OTC Pink are considerably lower and less regulated than those of the OTC Bulletin Board or an exchange.

Item 6. EXHIBITS

Exhibit Number	Exhibit Title	Page
31.1	CEO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	CFO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32.1	CEO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	#
32.2		#

	CFO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
10.1	Credit and Security Agreement dated February 19, 2014 among Katy Industries, Inc., Continental Commercial Products, LLC, 2155735 Ontario Inc., CCP Canada Inc., and BMO Harris Bank N.A.	*
10.2	Stock Purchase Agreement dated January 24, 2014 by and between Continental Commercial Products, LLC, FTW Holdings, Inc., certain shareholders of FTW Holdings, Inc. and Fort Wayne Plastics, Inc.	*
10.3	Commercial Lease Agreement dated effective March 25, 2015 by and between Continental Commercial Products, LLC and 321 Wilson Drive, L.L.C.	*
10.4	Amendment No. 1 to Credit and Security Agreement dated as of April 7, 2015 among Katy Industries, Inc., Continental Commercial Products, LLC, 2155735 Ontario Inc., CCP Canada Inc., FTW Holdings, Inc., Fort Wayne Plastics, Inc. and BMO Harris Bank N.A.	*
10.5	Second Lien Credit and Security Agreement dated April 7, 2015 among Katy Industries, Inc., Continental Commercial Products, LLC, FTW Holdings, Inc., Fort Wayne Plastics, Inc., 2155735 Ontario Inc., CCP Canada Inc., the lenders party thereto and Victory Park Management, LLC, as Agent.	*

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10.6	Asset Purchase Agreement dated April 7, 2015 among Continental Commercial Products, LLC, Centrex Plastics, LLC, T.R. Plastics, LLC, and Terrence L. Reinhart.	*
10.7	Limited Waiver and Amendment to Second Lien Credit and Security Agreement dated March 30, 2016 among Katy Industries, Inc., Continental Commercial Products, LLC, FTW Holdings, Inc., Fort Wayne Plastics, Inc., 2155735 Ontario Inc., CCP Canada Inc., the lenders party thereto and Victory Park Management, LLC, as Agent.	*
10.8	Limited Waiver and Amendment to Second Lien Credit and Security Agreement dated March 30, 2016 among Katy Industries, Inc., Continental Commercial Products, LLC, 2155735 Ontario Inc., CCP Canada Inc., FTW Holdings, Inc., Fort Wayne Plastics, Inc. and BMO Harris Bank N.A.	*
101	* Interactive data files pursuant to Rule 405 of Regulation S-5: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.	*

* Indicates incorporated by reference.

These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of Katy Industries, Inc. whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Signatures

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

KATY INDUSTRIES, INC.
Registrant

DATE: May 3, 2016	By /s/ David J. Feldman David J. Feldman President and Chief Executive Officer
	By /s/ Curt Kroll Curt Kroll Vice President, Treasurer and Chief Financial Officer