

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

KATY INDUSTRIES INC
Form PRER14A
April 09, 2001

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. 1)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to (S) 240.14a-12

KATY INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Fee paid previously with preliminary materials.

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

2

PRELIMINARY COPY

KATY INDUSTRIES, INC.
6300 S. Syracuse Way, Suite 300,
Englewood, Colorado 80111
(303) 290-9300

To our Stockholders:

We will be holding the Annual Meeting of Stockholders at _____ on May __, 2001 at _____ a.m. local time.

At the Annual Meeting we will ask you to consider and vote upon a proposed investment in Katy Industries, Inc. by an affiliate of an investment fund managed by Kohlberg & Co., L.L.C., a private investment firm. Specifically, we need your approval to sell 400,000 shares of convertible preferred stock, \$100 par value per share, to this investor. We also need your approval to amend Katy's Restated Certificate of Incorporation to authorize 600,000 shares of convertible preferred stock. At the Annual Meeting you will also be asked to vote upon the election of nine members of the Board of Directors, including certain nominees designated by Kohlberg's affiliate, and to vote on a proposal to classify the Board into two classes with staggered terms.

The enclosed Notice of Annual Meeting of Stockholders and Proxy Statement provides details of the proposed investment and related information. Your Board has determined that the terms of the investment are fair to and in the best interests of Katy and its stockholders. YOUR BOARD OF DIRECTORS HAS APPROVED AND RECOMMENDS THAT YOU VOTE FOR THE PROPOSALS AT THE ANNUAL MEETING.

The investment is part of a series of transactions that your Board has approved. This series of transactions includes a tender offer by Kohlberg's affiliate to purchase from Katy stockholders up to 2,500,000 shares of Katy's common stock. As explained in this Proxy Statement, the Board of Directors believes that this series of transactions is in the best interests of stockholders.

We have enclosed with this letter a Notice of Annual Meeting, a Proxy Statement, a proxy card and a return envelope. A copy of Katy's annual report on Form 10-K is also enclosed. We urge you to read all of the enclosed materials carefully.

Please sign, date and promptly return the enclosed proxy card in the enclosed, prepaid return envelope. Your shares will be voted at the Annual Meeting in accordance with your proxy instructions.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

On behalf of the Board of Directors and the employees of Katy, we cordially invite all stockholders to attend the Annual Meeting. If you plan to attend the meeting, please mark the appropriate box on the enclosed proxy card.

Sincerely,

Robert M. Baratta
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT

Please Sign, Date and Return Your Proxy Card by May ____, 2001

If you have questions about voting your shares, please contact our proxy solicitor, Innisfree M&A Incorporated, toll-free at 1-888-750-5834.

PRELIMINARY COPY

KATY INDUSTRIES, INC.
6300 S. Syracuse Way, Suite 300,
Englewood, Colorado 80111
(303) 290-9300

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Katy Industries, Inc.:

We are holding an Annual Meeting of Stockholders of Katy on May ____, 2001 at __ a.m., local time. The meeting will be held at _____. At the meeting, you will be asked to vote on the following:

1. A proposal to sell 400,000 shares of Katy's convertible preferred stock, \$100 par value per share, to KKTU Holding Company, L.L.C., an affiliate of an investment fund managed by Kohlberg & Co., L.L.C., a private investment firm.
2. A proposal to approve an amendment to Katy's Restated Certificate of Incorporation to authorize 600,000 shares of convertible preferred stock.
3. A proposal to approve an amendment to Katy's Restated Certificate of Incorporation authorizing the classification of the Board of Directors into two classes with staggered terms.
4. The election of nine members of the Board of Directors to serve for the staggered terms specified in the enclosed Proxy Statement or, if Proposals 1, 2 and 3 are not adopted by the stockholders, the election of nine members of the Board of Directors to serve for a term of one year.
5. The ratification of the selection by the Board of Directors of the firm of Arthur Andersen LLP as independent auditors of Katy for the current year.
6. The transaction of such other business as may properly come before the Annual Meeting or any adjournment thereof.

As part of Proposal 1, we are also asking you to approve at this time the issuance of shares of common stock to the holder of the convertible preferred stock upon conversion of the convertible preferred stock in accordance with the terms of the convertible preferred stock. The effectiveness of each of Proposals 1, 2 and 3 is contingent upon the approval of the others. No action will be taken by Katy on Proposals 1, 2 or 3 unless all three proposals are

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

approved.

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 able to vote your shares at the Annual Meeting if you were a stockholder of Katy at the close of business on April 23, 2001.

By order of the Board of Directors:

Arthur R. Miller
Secretary

2

Dated: April __, 2001

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 HAVE QUESTIONS ABOUT VOTING YOUR SHARES, PLEASE CONTACT OUR PROXY SOLICITOR, INNISFREE M&A INCORPORATED, TOLL-FREE AT 1-888-750-5834.

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

PRELIMINARY COPY

KATY INDUSTRIES INC.
6300 S. Syracuse Way, Suite 300,
Englewood, Colorado 80111
(303) 290-9300

PROXY STATEMENT FOR ANNUAL MEETING

This Proxy Statement provides information that you should read before you vote on five proposals that will be presented to the stockholders of Katy at an Annual Meeting to be held on May __, 2001 at _____.

For convenience, we first provide a question-and-answer summary of important information. The remainder of this Proxy Statement provides specific information about the Annual Meeting, the proposals on which you will be asked to vote at the Annual Meeting, the investment that is the subject of the first two proposals you will be asked to consider, and other relevant information.

On April __, 2001, we began mailing information to people who, according to our stockholder records, owned shares of Katy's common stock at the close of business on April 23, 2001.

3

TABLE OF CONTENTS

SUMMARY.....	1
INFORMATION ABOUT THE ANNUAL MEETING AND VOTING.....	5

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

THE ANNUAL MEETING.....	5
THIS PROXY SOLICITATION.....	5
VOTING YOUR SHARES.....	5
VOTE REQUIRED FOR APPROVAL.....	6
OTHER MATTERS.....	7
PROPOSAL 1 - SALE OF CONVERTIBLE PREFERRED STOCK.....	7
INTRODUCTION.....	7
REQUIRED VOTE.....	8
RECOMMENDATION OF THE BOARD OF DIRECTORS.....	9
THE TRANSACTION.....	9
INFORMATION ABOUT THE PURCHASE AGREEMENT.....	9
The Tender Offer.....	9
The Preferred Stock Issuance.....	10
Corporate Governance	10
Conditions to Accepting Shares Tendered into the Tender Offer and Purchasing the Preferred Stock.....	11
No Solicitation.....	13
Termination.....	13
Termination Fees.....	14
Transaction and Monitoring Fee.....	15
VOTING AGREEMENT.....	15
TERMS OF THE CONVERTIBLE PREFERRED STOCK.....	16
Conversion Rights.....	16
Registration Rights.....	16
Liquidation Preference.....	16
Redemption.....	17
No Dividends.....	17
No Voting Rights.....	17
No Preemptive Rights.....	17
Special Rights.....	17
USE OF PROCEEDS.....	17
INFORMATION ABOUT THE RELATED TRANSACTIONS.....	18
The Tender Offer.....	18
Bankers Trust Credit Facility.....	20
Partial Redemption of Preferred Interest in Contico International.....	21
BACKGROUND OF THE TRANSACTION.....	21
FACTORS CONSIDERED BY THE BOARD OF DIRECTORS.....	31
OPINION OF BEAR STEARNS.....	34
Overview.....	34
Bear Stearns Opinion.....	35

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Summary of Analysis.....	37
Other Considerations.....	43
INFORMATION ABOUT PURCHASER AND KOHLBERG.....	44
PROPOSAL 2 - TO AUTHORIZE 600,000 SHARES OF CONVERTIBLE PREFERRED STOCK.....	45
GENERAL.....	45
REQUIRED VOTE.....	45
RECOMMENDATION OF THE BOARD OF DIRECTORS.....	45
PROPOSAL 3 - ESTABLISHING A CLASSIFIED BOARD OF DIRECTORS.....	45
REQUIRED VOTE.....	47
RECOMMENDATION OF THE BOARD OF DIRECTORS.....	47
PROPOSAL 4 - ELECTION OF DIRECTORS.....	48
NOMINEES.....	48
REQUIRED VOTE.....	49
RECOMMENDATION OF THE BOARD OF DIRECTORS.....	49
INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS.....	49
Nominees.....	50
Current Directors.....	51
Executive Officers.....	55
PROPOSAL 5 - RATIFICATION OF THE APPOINTMENT OF ARTHUR ANDERSEN LLP AS THE INDEPENDENT AUDITORS OF KATY.....	56
AUDIT FEES.....	56
ALL OTHER FEES.....	56
REQUIRED VOTE.....	57
RECOMMENDATION OF THE BOARD OF DIRECTORS.....	57
INFORMATION ABOUT KATY STOCK OWNERSHIP.....	57
OUTSTANDING SHARES.....	57
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS.....	57
SECURITY OWNERSHIP OF MANAGEMENT.....	59
CHANGE OF CONTROL.....	61
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.....	61

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

EXECUTIVE COMPENSATION.....	62
SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION.....	62
OPTION GRANT TABLE.....	64
AGGREGATED OPTION/SAR EXERCISES AND FISCAL YEAR- END OPTION/SAR VALUE TABLE.....	65
TERMINATION OF EMPLOYMENT, CHANGE OF CONTROL AND OTHER ARRANGEMENTS.....	66
Compensation and Benefits Assurance Program.....	66
Other Arrangements.....	67
DIRECTORS' COMPENSATION.....	67
COMPENSATION COMMITTEE'S REPORT ON EXECUTIVE COMPENSATION.....	68
Compensation Philosophy.....	68
Compensation Program Components.....	69
Chief Executive Officer Compensation.....	70
Summary.....	70
STOCK PRICE PERFORMANCE GRAPH.....	70

iii

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION.....	71
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	72
MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS.....	72
AUDIT COMMITTEE REPORT.....	73
PROPOSALS OF STOCKHOLDERS FOR 2002 ANNUAL MEETING.....	73
FORWARD-LOOKING STATEMENTS.....	73
WHERE TO GET ADDITIONAL INFORMATION.....	74
ANNUAL REPORT ON FORM 10-K.....	74
OTHER MATTERS.....	75
INCORPORATION OF DOCUMENTS BY REFERENCE.....	75

ANNEX A -- Opinion of Bear, Stearns & Co. Inc. dated March 29, 2001

ANNEX B -- Preferred Stock Purchase and Recapitalization Agreement dated as of March 29, 2001 between KKTU Holding Company, L.L.C. and Katy Industries, Inc.

ANNEX C -- Stock Voting and Tender Agreement dated as of March 29, 2001

ANNEX D -- Proposed Amendment to Katy's Restated Certificate of Incorporation to authorize 600,000 shares of convertible preferred

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

stock and to adopt a classified board

ANNEX E -- Charter of the Audit Committee of the Board of Directors of Katy

iv

SUMMARY

This summary answers basic questions about the proposals. Please read the rest of the Proxy Statement for full information about the proposals.

This Proxy Statement contains forward-looking statements that involve risks and uncertainties. The words "believe," "anticipate," "expect," "estimate," "intend" and similar expressions identify forward-looking statements. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors. See "Forward-Looking Statements" on page ____ of the Proxy Statement.

WHAT ARE WE ASKING YOU TO APPROVE?

The first proposal for you to consider is the issuance and sale by Katy of convertible preferred stock, \$100 par value per share, to an affiliate of an investment fund managed by Kohlberg & Co., L.L.C. ("Kohlberg"). (We will use the term "convertible preferred stock" to refer to the convertible preferred stock, \$100 par value, that we are proposing to sell. We will use the term "Purchaser" to refer to the buyer of the convertible preferred stock.) As part of this proposal, we are also asking you to approve at this time the issuance of shares of common stock to the holder of the convertible preferred stock upon conversion of the convertible preferred stock in accordance with the terms of the convertible preferred stock.

Purchaser will purchase, for \$100 per share, 400,000 shares of convertible preferred stock. Each share of convertible preferred stock is convertible into 12.5 shares of Katy common stock, so that the purchase price of convertible preferred stock is equivalent to \$8.00 per share of common stock into which the preferred stock is convertible. 400,000 shares of convertible preferred stock would be convertible into 5,000,000 shares of common stock.

The second proposal for you to consider, which is related to the first proposal, is an amendment to Katy's Restated Certificate of Incorporation to authorize 600,000 shares of convertible preferred stock. Katy does not currently have any shares of preferred stock authorized or issued. If stockholders do not approve this proposal, Katy will not be able to sell the convertible preferred stock to Purchaser.

The third proposal, which is a condition to the completion of the transactions with Kohlberg, is an amendment to Katy's Restated Certificate of Incorporation authorizing the classification of the Board of Directors into two classes with staggered terms.

You are also being asked to elect the members of your Board and to ratify the selection of Arthur Andersen LLP as independent auditors of Katy. If the first three proposals are adopted, the nominees for election to the Board include five nominees designated by Purchaser, plus a new Chief Executive Officer, who was also proposed by Purchaser, and directors will be elected in two classes for staggered terms.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

WHY IS KATY SELLING PREFERRED STOCK TO PURCHASER?

Your Board has approved the sale of convertible preferred stock to Purchaser because such sale would provide Katy with significant increased cash resources and would permit Katy to refinance its existing bank loans, which otherwise would likely become due June 30, 2001, and to partially redeem a third party's preferred interest in a Katy subsidiary. (We will sometimes refer to the sale of convertible preferred stock to Purchaser as the "Preferred Stock Purchase.") The Preferred Stock Purchase would decrease the percentage of Katy's capitalization that consists of debt. The Board has determined that the financial and other terms of the Preferred Stock Purchase are fair to and in the best interests of Katy and its stockholders.

Kohlberg is a private merchant banking firm with offices in New York and California. Founded in 1987, Kohlberg has completed more than 70 acquisitions and recapitalization transactions in a variety of industries. It manages a pool of capital in excess of \$1.5 billion. It has substantial experience in providing companies in which its affiliates invest with financial and managerial advisory services aimed at building value and improving operational, marketing and financial performance.

WHAT ARE THE RELATED TRANSACTIONS?

The Preferred Stock Purchase is part of a series of transactions approved by your Board. This series of transactions includes a tender offer by Purchaser for 2,500,000 shares of Katy's common stock at \$8.00 per share (the "Tender Offer").

As part of the series of transactions, Purchaser has obtained a commitment letter from Bankers Trust Company to provide up to \$150 million of senior secured term and revolving loans to Katy, which will replace Katy's existing senior bank loans. In addition, a condition to the Preferred Stock Purchase and the Tender Offer is the completion of the sale of Katy's subsidiary Hamilton Metals, L.P. for gross proceeds in cash, net of liabilities retained by Katy, of at least \$20,000,000. Katy has entered into a non-binding letter of intent with a potential buyer for a sale of substantially all of the assets of Hamilton on terms that Katy believes will satisfy the condition.

Katy and its subsidiary Contico International, LLC have entered into an agreement with Newcastle Industries, Inc. for Contico to repurchase 165 of Newcastle's 329 preferred units in Contico for a total of \$9.9 million, plus accrued and unpaid priority return and profit participation on those units, if the transactions with Purchaser close. Katy and Newcastle have also agreed to amendments to the Members Agreement relating to Contico and to Contico's Limited Liability Company Agreement which take effect subject to the transactions with Purchaser closing.

Your Board decided that the transaction with Kohlberg is in the best interests of stockholders for several reasons. While the Preferred Stock Purchase will permit a reduction in Katy's indebtedness and a restructuring of Katy's existing bank loans, the Tender Offer will permit stockholders to choose to receive cash in exchange for a portion of their Katy common stock. The Preferred Stock Purchase and Tender Offer will also bring to Katy's business the managerial assistance and support of Kohlberg.

2

WHAT FACTORS SHOULD YOU TAKE INTO ACCOUNT IN CONSIDERING THE PROPOSED PREFERRED STOCK PURCHASE?

Katy's Board unanimously approved the transactions with Kohlberg because it

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

believed they would be in the best interests of Katy and its stockholders. (We will use the term "unanimously" in the Proxy Statement to refer to actions by all current members of Katy's Board, except William F. Andrews, a principal of Kohlberg, who did not take part in the discussions relating to the transactions with Kohlberg.) You should consider the factors described at pages _____ below. Positive factors considered by the Board include:

- The Board received an opinion from Bear, Stearns & Co. Inc. that, as of the date of such opinion, the Preferred Stock Purchase and Tender Offer, taken as a whole, were fair from a financial point of view to Katy's stockholders. A copy of the Bear Stearns opinion is attached as Annex A.
- Katy's cash resources and financial strength will be increased as a result of the cash infusion by Purchaser and borrowing availability under the new credit facility with Bankers Trust Company.
- The Tender Offer and Preferred Stock Purchase give stockholders the opportunity to sell shares of Katy in the Tender Offer at a substantial premium to the market price of Katy shares before the transaction with Kohlberg was announced, and also to remain as stockholders in a company that will be financially strengthened by the Purchaser's cash infusion.
- Katy's existing credit agreement must be refinanced by June 30, 2001. If the transactions with Kohlberg are not completed, considering the current market environment, a substantive risk exists that Katy will be unable to obtain further waivers of the defaults under the current credit facility and that Katy will be unable to obtain, on reasonable terms or at all, financing necessary to replace its current credit facility. If Katy is unable to refinance its existing bank loans, the entire amount under the existing credit agreement could be declared due and payable not later than June 30, 2001.

Negative factors considered by the Board include:

- The issuance of the convertible preferred stock will have a dilutive effect on Katy's existing stockholders.
- If the transactions with Purchaser are completed, Purchaser's significant ownership interests could effectively deter a third party from making an offer to acquire Katy.
- Purchaser's nominees, if elected, will constitute a majority of the Board of Directors, five of whom will serve an initial term of two years.

3

- Purchaser will nominate the proposed Chief Executive Officer, who is also a nominee for director, and who, if elected as director, will serve for an initial term of one year.
- Purchaser will have the right, so long as it retains any convertible preferred stock, to nominate a majority of the members of the Board of Directors in connection with future elections of directors.
- The holders of the convertible preferred stock will have preferential rights with respect to distributions if Katy is liquidated.
- If the Purchase Agreement is terminated, then, under certain

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

circumstances, Katy will be obligated to pay to Purchaser a fee of \$2,000,000 and to reimburse Purchaser's expenses up to \$1,000,000.

The Board believed that, on balance, the possible benefits to Katy stockholders from the positive factors outweighed the possible detriments from the negative factors.

4

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

THE ANNUAL MEETING

The Annual Meeting will be held on May __, 2001 at _____ at ____ a.m. local time.

THIS PROXY SOLICITATION

Katy is sending you this Proxy Statement because Katy's Board of Directors is seeking your proxy to vote your shares at the Annual Meeting. This Proxy Statement includes information that Katy is required to provide to you under the rules of the Securities and Exchange Commission. It is intended to assist you in voting your shares. On April __, 2001, we began mailing information to all people who, according to our stockholder records, owned shares at the close of business on April 23, 2001.

Katy will pay the cost of requesting these proxies. Katy's directors, officers and employees may request proxies in person or by telephone, mail, telecopy or letter. Katy also has retained Innisfree M&A Incorporated to assist in distributing proxy solicitation materials and seeking proxies. Katy will pay Innisfree a fee of approximately \$15,000, plus reasonable out-of-pocket expenses, for this assistance. Katy will reimburse brokers and other nominees their reasonable out-of-pocket expenses for forwarding proxy materials to beneficial owners of stock.

VOTING YOUR SHARES

You are entitled to one vote at the Annual Meeting for each share of Katy's common stock that you owned of record at the close of business on April 23, 2001. The number of shares you own (and may vote) is listed on the enclosed proxy card.

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

Your proxy card will be valid only if you sign, date and return it before the Annual Meeting. IF YOU COMPLETE THE PROXY CARD EXCEPT FOR THE VOTING INSTRUCTIONS, THEN YOUR SHARES WILL BE VOTED FOR THE PROPOSED SALE OF CONVERTIBLE PREFERRED STOCK TO PURCHASER AND FOR EACH OF THE OTHER PROPOSALS. 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 that you wish to revoke your proxy.

5

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

- _ Submitting a proxy dated later than your original proxy.
- _ Attending the Annual Meeting and voting. Merely attending the Annual Meeting will not by itself revoke a proxy; you must vote your shares at the Annual Meeting to revoke the proxy.

IF YOU WERE A HOLDER OF SHARES AT THE CLOSE OF BUSINESS ON APRIL 23, 2001, YOU WILL BE ENTITLED TO VOTE YOUR SHARES WHETHER OR NOT YOU SUBSEQUENTLY TENDER YOUR SHARES IN THE TENDER OFFER DESCRIBED ON PAGES _____ OF THIS PROXY STATEMENT. YOU SHOULD THEREFORE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD EVEN IF YOU HAVE ALREADY TENDERED, OR INTEND TO TENDER, YOUR SHARES IN THE TENDER OFFER.

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

VOTE REQUIRED FOR APPROVAL

We have agreed with Purchaser that we will ask you to approve the Preferred Stock Purchase. Also, the rules of the New York Stock Exchange (where Katy stock is traded) require stockholders to approve substantial sales of common stock or of securities convertible into common stock.

Proposal 1, regarding the proposed sale of convertible preferred stock to Purchaser, and Proposal 5, regarding the ratification and appointment of Arthur Andersen LLP as the independent auditors of Katy, will be approved if a majority of the votes cast on the proposal are cast in favor of the proposal. Proposals 2 and 3, the proposed amendments to Katy's Restated Certificate of Incorporation to authorize the convertible preferred stock and to classify the Board of Directors, respectively, each require the affirmative vote of the holders of a majority of the voting power of Katy's outstanding capital stock entitled to vote at the Annual Meeting. With respect to Proposal 4, regarding the election of directors, directors will be elected by a plurality of the shares present in person or by proxy and entitled to vote on the election of directors. "Plurality" means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be elected at the Annual Meeting. Consequently, any shares not voted (whether by abstention, broker non-vote or withholding authority) will have no impact on the election of directors.

The effectiveness of each of Proposal 1, Proposal 2 and Proposal 3 is contingent on the approval of the others. Katy will not take any action on Proposal 1, Proposal 2 or Proposal 3 unless stockholders approve all three. Therefore, if you vote against approving either of the two amendments to Katy's Restated Certificate of Incorporation, this will have the same effect as voting against the Preferred Stock Purchase.

6

Certain Katy stockholders have also entered into a Stock Voting and Tender Agreement dated as of March 29, 2001 (the "Voting Agreement"). The Voting Agreement provides, among other things, that those stockholders will tender, in aggregate, at least 1,500,000 shares to Purchaser in the Tender Offer and will vote, in the aggregate, 2,500,000 shares in favor of Proposals 1, 2, 3 and 4. The 2,500,000 common shares subject to these voting obligations represent, as of March 29, 2001, approximately 29.8% of the shares of Katy capital stock entitled to vote at the Annual Meeting. The Voting Agreement is included as Annex C to

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

this Proxy Statement.

On the record date for the Annual Meeting, April 23, 2001, _____ shares of Katy's common stock, \$1.00 par value per share, were issued and outstanding. In addition, a "quorum" must be present at the Annual Meeting. Each share of common stock is entitled to one vote. A quorum will be present if a majority of the outstanding shares of common stock are represented at the Annual Meeting, either in person (by the stockholders) or by proxy. If there is no quorum, a vote cannot occur.

In deciding whether there is a quorum, abstentions and "broker non-votes" will be counted as shares that are represented at the Annual Meeting. (A broker non-vote can occur if you hold your shares with a broker and are asked to instruct your broker how to vote your shares. If you do not tell your broker how to vote, your broker will not be able to vote for or against the proposal. If your broker returns a proxy card for your shares without any voting instructions, your shares will be counted as "broker non-vote" shares.) In deciding whether Proposal 1 or Proposal 5 has been approved, abstentions will count as if they were votes against the proposal, but broker non-votes will not count. Since Proposal 2 and Proposal 3 each requires the affirmative vote of the holders of a majority of the voting power of Katy's outstanding capital stock entitled to vote, broker non-votes will count as if they were votes against such proposals. Neither abstentions nor broker non-votes will count in electing directors.

OTHER MATTERS

Katy's stockholders are not entitled to appraisal rights under Section 262 of the Delaware General Corporation Law, whether or not they vote against the sale of convertible preferred stock to Purchaser.

Arthur Andersen LLP is Katy's independent accountant. Representatives of Arthur Andersen LLP will attend the Annual Meeting. They will have the opportunity to make a statement if they wish, and to respond to appropriate questions.

PROPOSAL 1 - SALE OF CONVERTIBLE PREFERRED STOCK

INTRODUCTION

Katy is asking you to approve a sale of 400,000 shares of convertible preferred stock to KKTU Holding Company, L.L.C. ("Purchaser"), an affiliate of an investment fund managed by Kohlberg, for a price of \$100 per share. Katy is also asking you to

7

approve at this time the issuance of shares of common stock to the holder of the convertible preferred stock upon conversion of the convertible preferred stock in accordance with the terms of the convertible preferred stock. On March 29, 2001, Purchaser and Katy signed a Preferred Stock Purchase and Recapitalization Agreement (the "Purchase Agreement") that sets out the terms of the proposed sale of convertible preferred stock. The Purchase Agreement is included as Annex B to this Proxy Statement. You should read the entire Purchase Agreement including the Annexes and Exhibits included with the Purchase Agreement.

Purchaser's purchase of the convertible preferred stock is part of a series of transactions. Concurrently with Katy mailing this Proxy Statement, Purchaser will offer to purchase from Katy stockholders 2,500,000 shares of Katy's common stock, at a price of \$8.00 per share, in a tender offer (the "Tender Offer") provided that, among other things, at least 2,000,000 shares of Katy's common

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

stock are tendered. On the closing of the Tender Offer and assuming stockholder approval, Katy will sell 400,000 shares of Katy's convertible preferred stock, \$100 par value per share, to Purchaser for a price of \$100 per share, on the terms and subject to the conditions in the Purchase Agreement. (We will sometimes refer to the sale of the convertible preferred stock to Purchaser as the "Preferred Stock Purchase.")

As part of the series of transactions, Purchaser has obtained a commitment letter from Bankers Trust Company to provide up to \$150 million of senior secured term and revolving loans to Katy, which will replace Katy's existing bank loans. In addition, the completion of the sale of Hamilton Metals, L.P. ("Hamilton") for cash proceeds, net of liabilities retained by Katy, of \$20,000,000 is a condition to Purchaser's obligation to consummate the Preferred Stock Purchase and the Tender Offer. Katy has entered into a non-binding letter of intent with a potential buyer for a sale of substantially all of the assets of Hamilton on terms that Katy believes will satisfy this condition.

Katy engaged Bear Stearns to provide a fairness opinion in connection with the transactions with Kohlberg. On March 29, 2001, Bear Stearns delivered an opinion to the Board of Directors that, as of the date of such opinion, the Preferred Stock Purchase and the Tender Offer, taken as a whole, were fair, from a financial point of view, to Katy's stockholders. Bear Stearns' written opinion is included as Annex A to this Proxy Statement. The opinion sets forth the assumptions made, matters considered and limitations on the review undertaken in connection with the opinion. The opinion of Bear Stearns does not constitute a recommendation as to how any holder of Katy stock should vote with respect to any matter described herein. You should read the entire opinion carefully. Additional information about the opinion can be found at pages ____.

REQUIRED VOTE

The affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting that are present in person or by proxy is required to approve Proposal 1. Approval of Proposal 1 is contingent on approval of Proposal 2 and Proposal 3.

8

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MATTERS SET FORTH IN PROPOSAL 1 AND BELIEVES THAT THEY ARE FAIR TO AND IN THE BEST INTERESTS OF KATY AND ITS STOCKHOLDERS AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF PROPOSAL 1.

THE TRANSACTION

Subject to the conditions in the Purchase Agreement, Katy has agreed to issue and sell, and Purchaser has agreed to buy, 400,000 shares of newly-issued convertible preferred stock, \$100 par value per share, for a price of \$100 per share. The gross proceeds from the sale will be \$40 million. 400,000 shares of convertible preferred stock would be convertible into 5,000,000 shares of common stock at an exchange ratio of 12.5 shares of common stock per share of convertible preferred stock.

INFORMATION ABOUT THE PURCHASE AGREEMENT

The important terms of the Purchase Agreement are described below. The Purchase Agreement is included as Annex B to this Proxy Statement. You should read the entire Purchase Agreement including the Annexes and Exhibits included with the Purchase Agreement.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

The Tender Offer

Concurrently with the mailing of this Proxy Statement, Purchaser will offer to purchase from Katy stockholders 2,500,000 shares of Katy's common stock, at a price of \$8.00 per share.

The Tender Offer will initially be open for 20 business days after its commencement date, or until May __, 2001, if such date is later. Purchaser can extend the Tender Offer for up to an additional 20 business days (but not past June 30, 2001). Purchaser must so extend the Tender Offer if Katy requests this, provided the conditions to Purchaser's obligations to close the purchase of shares pursuant to the Tender Offer are satisfied (with some exceptions, including the condition that stockholders have tendered at least 2,000,000 shares of common stock).

Purchaser's obligation to accept for payment and to pay for shares of common stock validly tendered into the Tender Offer is subject to various conditions in the Purchase Agreement. In any event, Purchaser cannot purchase more than 29.9% of Katy's outstanding common stock. Therefore, if stockholders tender more than 2,500,000 shares of common stock, Purchaser will buy shares from them pro rata up to the 2,500,000 maximum.

9

The Preferred Stock Issuance

Subject to the conditions in the Purchase Agreement, Katy has agreed to issue and sell, and Purchaser has agreed to buy, 400,000 shares of newly-issued convertible preferred stock, \$100 par value per share, for a price of \$100 per share. 400,000 shares of convertible preferred stock would be convertible into 5,000,000 shares of common stock at an exchange ratio of 12.5 shares of common stock per share of convertible preferred stock (which, based on the \$100 purchase price for a share of convertible preferred stock, is the equivalent of \$8.00 per share of common stock).

The terms and conditions of the convertible preferred stock are set out below in the section entitled "Terms of the Convertible Preferred Stock."

Corporate Governance

Under the Purchase Agreement, Purchaser has the right to nominate five directors for election at the Annual Meeting, subject to election by the holders of common stock present in person or by proxy and voting at the Annual Meeting. The Purchaser's designees have been unanimously approved by the members of the Board currently in office (other than Mr. Andrews, who removed himself from consideration of matters relating to the proposed transaction because of his affiliation with Kohlberg). At any subsequent annual or special meeting of the stockholders of Katy at which an election for members of Katy's Board is held, Purchaser has the right, for so long as it retains any shares of convertible preferred stock, to nominate a number of nominees such that, after the election, the Purchaser's designees constitute a simple majority of the members of Katy's Board, subject to election by vote of the holders of the common shares.

If stockholders approve Proposal 1, Proposal 2 and Proposal 3, the directors elected at the 2001 annual meeting of stockholders will be classified into two classes as follows:

- One class will comprise three current directors who will continue in office (Robert M. Baratta, Daniel B. Carroll and Wallace E. Carroll, Jr.) plus C. Michael Jacobi, the proposed Chief Executive Officer

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

nominated by Purchaser. This class will initially be elected for a one year term expiring at the annual meeting of stockholders to be held in 2002.

- The second class will comprise the five Purchaser designees, one of whom is William F. Andrews, a current director. This class will initially be elected for a two year term expiring at the annual meeting of stockholders to be held in 2003.

Beginning with the election of directors to be held at the year 2002 annual meeting, each class of directors would be elected for a two-year term.

Purchaser has agreed that it will not sell more than 20% of the Katy common stock (on a fully diluted basis, including the shares of common stock issuable upon the

10

conversion of convertible preferred stock) in any transaction or series of related transactions, unless all holders of Katy common stock except Purchaser and its affiliates (the "Other Holders") have the right to participate in such sale for the same consideration per share of common stock (or common share equivalent) on a pro rata basis. In connection with any merger, consolidation or other business combination involving Katy in which Katy is not the surviving corporation, the Other Holders shall receive the same consideration per share of common stock (or common share equivalent) as Purchaser receives.

All fees paid by Katy to Purchaser (or its affiliates) and any transactions between Katy and Purchaser (or its affiliates) shall be subject to approval of the members of Katy's Board who are not designees of Purchaser or otherwise affiliated with Purchaser (the "Other Directors").

The above governance provisions will be reflected in Katy's by-laws, effective on the closing. Any amendment to Katy's by-laws modifying the terms described above will be subject to approval by a majority of the Other Directors and by a majority of the Other Holders.

Conditions to Accepting Shares Tendered into the Tender Offer and Purchasing the Preferred Stock

Both Purchaser's and Katy's obligations to close the transactions are subject to certain conditions including the absence of a law or judgment that would prevent the transactions from closing and receipt of necessary approvals. A party need not close if the other party has materially breached its representations or warranties, or failed to comply with its obligations, under the Purchase Agreement.

Also, Purchaser need not buy shares of common stock tendered into the Tender Offer nor the convertible preferred stock to be issued by Katy unless certain other conditions in the Purchase Agreement are satisfied. These include:

- there being validly tendered and not withdrawn prior to the expiration of the Tender Offer at least 2,000,000 shares of Katy's common stock;
- the shares of common stock tendered in the Tender Offer, together with the shares of common stock into which Purchaser's convertible preferred stock is convertible, represent a majority of Katy's common stock issuable and outstanding, calculated on a fully diluted basis (excluding outstanding options);

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

- the shares of common stock tendered in the Tender Offer, after proration, if any, represent less than 30% of the combined voting power of the outstanding securities of Katy on the date the purchase of tendered shares closes;

11

- there being no change in the financial condition, businesses, operations, properties, results of operations, assets or prospects of Katy and its subsidiaries that has a material adverse effect on Katy and its subsidiaries;
- absence of a material adverse change after the commencement of the Tender Offer in financial or credit agreement syndication markets that results in Katy not obtaining funding under the Bankers Trust Company loan commitment letter;
- the stockholders have elected the Purchaser's designees, amended Katy's Restated Certificate of Incorporation to authorize the issue of convertible preferred stock and to adopt a classified Board of Directors, and authorized the sale of the convertible preferred stock to Purchaser;
- Katy's board of directors has not withdrawn or materially modified its recommendation of the transactions or approved a competing transaction;
- Katy has obtained an unqualified audit opinion on its financial statements for the year ended December 31, 2000;
- Katy has consummated the sale of its subsidiary Hamilton for gross proceeds in cash, net of liabilities retained by Katy, of at least \$20,000,000;
- no person or group has, after the date of the Purchase Agreement, acquired beneficial ownership of more than 20% of Katy's common stock;
- there shall not have occurred in the United States, a general suspension of trading in securities markets, a banking moratorium or suspension of payments by banks, a limitation by a governmental authority on the extension of credit by banks or other financial institutions, or a declaration of war or commencement of hostilities;
- Bear Stearns has not withdrawn its fairness opinion;
- Katy has entered into definitive documentation for the credit facilities to be established under the terms and conditions of the proposed refinancing with Bankers Trust Company in a term sheet signed by Bankers Trust Company and Purchaser (including any modification of the refinancing terms approved by Purchaser); and
- certain stockholders of Katy have entered into a stock voting agreement with respect to electing Purchaser designees as directors at stockholder meetings after the 2001 annual stockholder meeting.

12

No Solicitation

Katy has agreed that, prior to closing, it will not solicit, initiate or

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

encourage inquiries or proposals, or participate in discussions or negotiations, about competing transactions meeting certain criteria. However, Katy can give information to, or enter into discussions or negotiations with, anyone making an unsolicited enquiry and who gives Katy a written proposal if a majority of Katy's directors determines that doing so would be reasonably likely to result in a written proposal to acquire more than 50% of Katy's outstanding equity securities that Katy's Board of Directors determines in good faith (after consultation with an independent, nationally recognized investment bank) to be superior to Katy's stockholders from a financial point of view compared to Purchaser's proposal, and that failure to do so would not be consistent with the directors' fiduciary duties.

Katy's Board of Directors cannot withdraw its approval or recommendation of the transactions, approve or recommend certain types of competing transactions or cause Katy to enter into a letter of intent or acquisition agreement for such competing transactions except to comply with securities laws or stock exchange requirements or if the board determines that not doing so would be inconsistent with the directors' fiduciary duties.

Termination

Katy and Purchaser can terminate the Purchase Agreement at any time by mutual agreement. Either party can terminate the Purchase Agreement if:

- the transactions have not closed by June 30, 2001 (unless this is due to that party's breach);
- a law or judgment prevents the transactions; or
- the other party materially breaches its representations or does not perform its covenants under the Purchase Agreement (and does not or cannot remedy its breach).

Purchaser can terminate the Purchase Agreement if stockholders do not tender at least 2,000,000 shares of common stock into the Tender Offer or if any of the other conditions to purchasing shares tendered into the Tender Offer and purchasing the convertible preferred stock are not satisfied.

Katy can terminate the Purchase Agreement, in furtherance of its directors' fiduciary duties, to enter into an agreement with a third party relating to a superior proposal to acquire more than 50% of Katy's outstanding equity securities. Katy must have given Purchaser three business days' notice of the competing proposal and negotiate with Purchaser during those three business days if Purchaser wishes to do so.

13

Termination Fees

Katy must reimburse Purchaser for its documented expenses, up to \$1,000,000, if the Purchase Agreement is terminated because:

- the transactions have not closed by June 30, 2001;
- a law or judgment prevents the transactions;
- the stockholders do not tender at least 2,000,000 shares of common stock into the Tender Offer;
- any of the other conditions to Purchaser closing the transactions are not satisfied;

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

- Katy has materially breached its representations or not performed its covenants under the Purchase Agreement (and did not or could not remedy its breach); or
- in furtherance of the directors' fiduciary duties, Katy wishes to enter into an agreement with a third party relating to a superior proposal for a third person to acquire more than 50% of Katy's outstanding equity securities.

Also, Katy must pay Purchaser a fee of \$2 million if:

- another person proposes to Katy or its stockholders, or publicly proposes, a competing transaction under which that person would buy a business constituting at least 40% of Katy's consolidated net revenues, net income or assets, buy at least 40% of Katy's common stock or enter into a merger, recapitalization or similar transaction involving Katy;
- the Purchase Agreement is terminated after that because:
 - . the stockholders do not tender at least 2,000,000 shares of common stock into the Tender Offer;
 - . any of the other conditions to Purchaser completing the transactions are not satisfied (except for a law or judgment preventing the transactions; an adverse change in the financing or credit agreement syndication markets that results in Katy not obtaining financing; a general suspension of trading in securities markets (or various other disruptions to financial markets); or merely that the Purchase Agreement has been terminated);

14

- . Katy has materially breached its representations or not performed its covenants under the Purchase Agreement (and did not or could not remedy its breach); or
- . in furtherance of the directors' fiduciary duties, Katy wishes to enter into an agreement with a third party relating to a superior proposal for a third person to acquire more than 50% of Katy's outstanding equity securities.
- Katy enters into the competing transaction within 12 months of the termination of the Purchase Agreement, and closes that competing transaction within 18 months of the Purchase Agreement terminating.

Transaction and Monitoring Fee

Katy's Board of Directors has approved Katy paying a transaction fee of \$3 million to Kohlberg if the transactions with Kohlberg are completed. Therefore, if the stockholders pass Proposals 1, 2, 3 and 4 and the transactions are completed, Katy will pay Kohlberg this \$3 million fee.

Kohlberg has informed Katy that Kohlberg intends to propose an annual monitoring fee of \$500,000 for investment banking and advisory services on an ongoing basis and in lieu of director fees for the Kohlberg designees.

VOTING AGREEMENT

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Purchaser and certain members of the Wallace E. Carroll, Jr. family, trusts for the benefit of family members, and entities associated with the Carroll family (the "Agreement Shareholders") have entered into a Stock Voting and Tender Agreement ("Voting Agreement") under which the Agreement Shareholders have agreed to vote 2,500,000 shares, in the aggregate, in favor of, among other things: the election of the directors nominated by Katy's Board of Directors; the authorization and adoption of amendments to Katy's Amended Certificate of Incorporation authorizing 600,000 shares of convertible preferred stock and authorizing the classification of the Board of Directors into two classes with staggered terms; the issuance of convertible preferred stock; and the issuance of shares of common stock on the conversion of the convertible preferred stock. Agreement Shareholders have also agreed to vote 2,500,000 shares, in the aggregate, against any actions intended, or that could reasonably be expected, to impede or delay the transactions.

The Agreement Shareholders also agree to tender into the Tender Offer, in aggregate, not less than 1,500,000 shares of common stock.

The Agreement Shareholders have agreed that, before the closing of the transactions, they will not solicit, initiate or encourage inquiries or proposals, or participate in discussions or negotiations, about competing transactions meeting certain

15

criteria (although an Agreement Shareholder can, in his or her capacity as a Katy director or officer, take any action permitted under the Purchase Agreement).

The 2,500,000 shares subject to being voted in accordance with the Voting Agreement represent approximately 29.8% of Katy's common stock as of March 29, 2001.

A copy of the Voting Agreement is attached as Annex C to this Proxy Statement. You should read the entire Voting Agreement.

TERMS OF THE CONVERTIBLE PREFERRED STOCK

The complete text of the proposed amendment to Keystone's Restated Certificate of Incorporation, which establishes the convertible preferred stock, is included in this Proxy Statement as Annex D. You should read Annex D in its entirety.

The certificate of amendment establishing the convertible preferred stock authorizes 600,000 shares of convertible preferred stock, par value \$100 per share. The convertible preferred stock will rank senior (with respect to liquidation payments) to the common stock and any future preferred stock of Katy.

Conversion Rights

Each share of convertible preferred stock is convertible, at the holder's option, into 12.5 shares of common stock at any time after the earliest of:

- the fifth anniversary of the closing of the transactions;
- Katy's Board of Directors approving a merger, consolidation or other business combination involving Katy (except where Katy is the surviving entity and there is no change in control of Katy), or a sale or other disposition of all or substantially all of Katy's assets;

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

- steps being taken to liquidate, dissolve or wind up Katy; and
- a solicitation of proxies, for a stockholder meeting or stockholder consent, in respect of the election of directors, against the election of a person nominated by the holders of the convertible preferred stock or for the removal of any person nominated by the holders of the convertible preferred stock for election as a director.

Registration Rights

In most cases where Katy registers shares of common stock under a registration statement, holders of convertible preferred stock will have "piggy back" rights to include in that registration their shares of common stock issued on conversion of convertible preferred stock. Holders of shares of common stock issued upon conversion of

16

convertible preferred stock can also require Katy to file a registration statement on up to three occasions.

Liquidation Preference

On liquidation, holders of convertible preferred stock are entitled to be paid the par value (\$100) for each share of convertible preferred stock before holders of common stock receive a distribution.

Redemption

Shares of convertible preferred stock are redeemable in whole, at Katy's option, after the 20th anniversary of the closing date of the transactions, at the par value of \$100 per share.

No Dividends

Convertible preferred stock carry no rights to dividends.

No Voting Rights

Holders of convertible preferred stock do not have the right to vote on any matter to be voted on by stockholders or classes of stockholders, except where this is required by law.

No Preemptive Rights

Holders of convertible preferred stock have no preemptive rights with respect to any shares of Katy's capital stock.

Special Rights

Katy must obtain the approval of the holders of at least a majority of the then outstanding shares of convertible preferred stock before undertaking certain actions including:

- authorizing or issuing equity securities with equal or superior rights to the convertible preferred stock on liquidation, dissolution or winding up;
- amending Katy's Amended Certificate of Incorporation or by-laws in any way or entering into a merger, consolidation, reorganization, recapitalization or sale of all or substantially all of its assets, in

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

any case which adversely affects the rights of holders of convertible preferred stock; and

- engaging in a transaction impairing the rights of holders of convertible preferred stock.

17

USE OF PROCEEDS

Purchaser will acquire 400,000 shares of convertible preferred stock at a price of \$100 per share. The gross proceeds from the sale will be \$40 million. Katy will use these funds, together with the proceeds of the new secured loan facility and the net proceeds of the sale of Hamilton, to refinance its existing bank debt, to partially redeem a third party's preferred interest in a Katy subsidiary and to pay approximately \$8,000,000 towards the transaction costs of the transactions with Kohlberg. The costs of the transactions with Kohlberg include expenses such as financing fees (in connection with the refinancing), professional fees, printing costs and the transaction fee payable to Kohlberg.

INFORMATION ABOUT THE RELATED TRANSACTIONS

The Tender Offer

Purchaser has agreed that, concurrently with the mailing of this Proxy Statement, Purchaser will distribute to stockholders a Tender Offer Statement on Schedule TO ("Tender Offer Statement"). Concurrently, Katy will distribute to stockholders a Solicitation/Recommendation Statement on Schedule 14D-9 ("Solicitation/Recommendation Statement"). The Tender Offer Statement and Solicitation/Recommendation Statement contain additional information about the Tender Offer. The section of this Proxy Statement titled "Where to Get Additional Information" explains how to get copies of the Tender Offer Statement and the Solicitation/Recommendation Statement.

In the Tender Offer, Purchaser will offer to purchase 2,500,000 shares of common stock at a price of \$8.00 per share. Purchaser has agreed to commence the Tender Offer concurrently with the mailing of this Proxy Statement and that the Tender Offer will expire on the 20th business day after the Tender Offer is commenced or, if later, on May __, 2001, unless Purchaser extends the expiration date (but in no event past June 30, 2001). The Purchaser will be required to extend the expiration date, at the request of Katy, if the conditions (other than the minimum condition and specified other conditions) have been satisfied.

The Board approved the Tender Offer to give stockholders the opportunity to receive cash for a portion of their investment in Katy. The Tender Offer price of \$8.00 per share represented a substantial premium over the trading price of Katy common stock immediately before the announcement of the Preferred Stock Purchase and Tender Offer.

Purchaser will not be required to purchase shares of common stock in the Tender Offer unless the following conditions, and other customary conditions, are satisfied:

- there being validly tendered and not withdrawn prior to the expiration of the Tender Offer at least 2,000,000 shares of Katy's common stock;
- the shares of common stock tendered into the Tender Offer, together with the shares of common stock into which Purchaser's convertible

18

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

preferred stock is convertible, represent a majority of Katy's common stock issuable and outstanding, calculated on a fully diluted basis (excluding outstanding options);

- the shares of common stock tendered in the Tender Offer, after proration, if any, represent less than 30% of the combined voting power of the outstanding securities of Katy on the date the purchase of tendered shares closes;
- there being no change in the financial condition, businesses, operations, properties, results of operations, assets or prospects of Katy and its subsidiaries that has a material adverse effect on Katy and its subsidiaries;
- absence of a material adverse change in financial or credit agreement syndication markets after the commencement of the Tender Offer that results in Katy not obtaining funding under the Bankers Trust Company loan commitment letter;
- the stockholders have elected the Purchaser's designees, amended Katy's Restated Certificate of Incorporation to authorize the issue of convertible preferred stock and to adopt a classified Board of Directors, and authorized the issuance of the convertible preferred stock to Purchaser;
- Katy's Board of Directors has not withdrawn or materially modified its recommendation of the transactions or approved a competing transaction;
- Katy has obtained an unqualified audit opinion with respect to its financial statements for the year ended December 31, 2000;
- Katy has consummated the sale of its subsidiary Hamilton for gross proceeds in cash, net of liabilities retained by Katy, of at least \$20,000,000;
- no person or group has, after the date of the Purchase Agreement, acquired beneficial ownership of more than 20% of Katy's common stock;
- there shall not have occurred in the United States, a general suspension of trading in securities markets, a banking moratorium or suspension of payments by banks, a limitation by a governmental authority on the extension of credit by banks or other financial institutions, or a declaration of war or commencement of hostilities;
- Bear Stearns has not withdrawn its fairness opinion;
- Katy has entered into definitive documentation for the credit facilities to be established under the terms and conditions of the proposed refinancing with Bankers Trust Company in a term sheet signed by Bankers Trust

19

Company and Purchaser (including any modification of the refinancing terms approved by Purchaser); and

- certain stockholders of Katy have entered into a stock voting agreement with respect to electing Purchaser designees as directors at

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

stockholder meetings after the 2001 annual stockholder meeting.

Bankers Trust Credit Facility

Bankers Trust Company has entered into a commitment letter with Purchaser to provide Katy with up to \$150,000,000 of senior secured term and revolving loan facilities, consisting of a term loan of up to \$40,000,000 and a revolving loan of up to \$110,000,000 upon consummation of the Preferred Stock Purchase and the Tender Offer. The commitment letter provides that Bankers Trust Company may change the terms and conditions, pricing and structure of the facility if it is advisable to ensure successful syndication of the facilities, provided that the total amount of the facilities remains unchanged.

The term loan is proposed to have a final maturity of five years, with mandatory amortization quarterly in annual amounts totaling \$8,000,000. The revolving credit facility would mature in five years. Both facilities would be secured by a grant of security interests in all of the assets of Katy and its subsidiaries, including a pledge of inter-company notes and subsidiary stock (66% in the case of foreign subsidiaries) and by a pledge of all the stock of Katy owned by Purchaser. The loans would bear interest at rates equal to the base rate plus 1.5% or the Euro-Dollar rate plus 2.5% per annum, or at the base rate plus 3.5% in the event of a default. Loans under the revolving credit facility would be subject to a maximum availability determined by reference to a borrowing base consisting of 65% of eligible inventory, not to exceed \$75,000,000, and 85% of eligible accounts receivable. Availability of loans under the term loan would be subject to a maximum availability determined by reference to a borrowing base equal to 90% of orderly liquidation value of eligible machinery and equipment plus 60% of appraised fair market value of eligible real property. The facilities would be subject to mandatory prepayment and reduction of commitments equal to 100% of the net proceeds from asset sales, and net proceeds of equity offerings and certain debt issuances and 75% of excess annual cash flow. The facilities would be made under loan agreements containing customary representations and warranties, covenants and events of default, to be negotiated.

Bankers Trust Company's obligations to fund the commitment is subject to a number of conditions, including, without limitation, negotiation of definitive documentation satisfactory to Bankers Trust, the consummation of the Preferred Stock Purchase and the Tender Offer on terms satisfactory to Bankers Trust, receipt of financial statements and projections substantially consistent with projected financial results for subsequent periods, no material adverse change in Katy having occurred since December 31, 1999, no material disruption of the syndication markets for credit facilities and no material adverse change in the financial, banking or capital markets having occurred, in

20

either case that would have an adverse effect on such syndication market, as determined by Bankers Trust Company in its sole discretion.

Bankers Trust Company would receive a financing fee of \$3,750,000 for providing the facilities and certain other fees for administering the facilities and providing letters of credit under it. The commitment expires on June 30, 2001 unless the transactions are consummated by June 30, 2001.

Partial Redemption of Preferred Interest in Contico International

Katy and its subsidiary Contico International, L.L.C. have entered into an agreement with Newcastle Industries, Inc for Contico to repurchase 165 of Newcastle's 329 preferred units in Contico for a total of \$9.9 million, plus the accrued and unpaid priority return and profit participation on those units, if

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

the transactions with Purchaser close. Newcastle has agreed that the transactions with Purchaser do not trigger Newcastle's put option (that is, Newcastle's right to require Katy to buy its preferred units) under the Members Agreement exercisable on a change of control.

Katy and Newcastle have also agreed to amendments to Contico's Limited Liability Company Agreement and the Members Agreement to take effect subject to the transactions with Purchaser closing. These include:

- Newcastle can exercise its put option during the period beginning on the earlier of the fifth anniversary of the closing of the transactions with Purchaser and the date Katy repays all outstanding indebtedness for borrowed money Katy incurs in connection with those transactions;
- Newcastle has a new put option exercisable if Katy redeems or repurchases preferred stock (or any securities into which it is convertible) or declares a dividend or makes another distribution in respect of its capital stock;
- Katy can require holders of preferred units to sell to Katy all or some of their units (although Katy must buy at least 82 units when it exercises this right);
- on the exercise of a put option, Katy must pay Newcastle in cash, rather than in Katy stock; and
- Contico is to keep available adequate reserves with respect to working capital, taxes, future capital expenditures and mandatory distributions.

BACKGROUND OF THE TRANSACTION

In September 2000, Katy recognized that it would fall out of compliance with certain financial ratio covenants under its existing bank credit agreement and commenced negotiations with its bank group with respect to a waiver. On September 28, 2000, the bank group agreed to waive the covenant defaults through October 27, 2000, to provide

21

time to arrive at an amendment to the credit agreement satisfactory to Katy and the bank group. Underlying the waiver and the proposed amendment was an understanding that Katy would consider strategic alternatives, including the potential sale of Katy or one or more of its material subsidiaries. Unless the banks' waiver was extended beyond October 27, 2000, Katy would have been in default under the credit agreement, and the banks could have accelerated the debt and demanded immediate payment from Katy.

In early October 2000, the Board of Directors retained Debevoise & Plimpton, as legal counsel, to assist in negotiations with Katy's lenders and with the consideration and negotiation of strategic alternatives.

On October 3, 2000, the Board of Directors determined that Katy should begin exploring possible strategic alternatives, including alternatives to remaining an independent company. The Board of Directors authorized senior management of Katy to contact potential strategic and financial partners and to provide confidential Katy information to such persons. In addition, the Board of Directors requested senior management of Katy to continue to analyze Katy's financial position in order to determine whether a stand-alone alternative, with or without the sale of subsidiaries of Katy, was feasible in the context of the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

financial covenants in the existing credit agreement.

After the October 3 Board of Directors meeting, management of Katy completed preparation of an information package (the "Information Package") concerning Katy which contained historical financial information, segment information, the information memorandum sent to the Katy's bank group in connection with the proposed amendment to the credit agreement and certain forecasts.

In early October 2000, Katy contacted a number of potential strategic and financial partners inquiring as to their interest in acquiring Katy. Kohlberg was introduced to Katy by William F. Andrews, a director of Katy, who at that time informed Katy that he was a principal of Kohlberg and received a consulting fee from that company and also served as a director of several companies affiliated with Kohlberg. The Information Package was transmitted to those parties that expressed preliminary interest in Katy, once such parties executed confidentiality agreements with Katy. In total, management contacted 16 potential buyers, including 11 strategic buyers - that is, companies engaged in similar businesses - and 5 financial buyers. Of the parties contacted, 5 strategic buyers and 3 financial buyers expressed preliminary interest and executed confidentiality agreements. These interested recipients included Kohlberg, which signed a confidentiality agreement on October 11, 2000.

On or about October 12, 2000, representatives of Kohlberg met with John R. Prann, Jr., then the Chief Executive Officer and a director of Katy, and with other representatives of senior management at Katy's head office at Englewood, Colorado.

At a meeting of the Board of Directors on October 13, Mr. Prann reported that Kohlberg was interested in acquiring Katy in a transaction in which trusts associated with members of the Carroll family would exchange a portion of their

22

shareholdings in Katy for shares of an affiliate that would acquire the publicly held common shares at a price of \$14.50.

In the second half of October, Kohlberg and two of its prospective financing sources met with representatives of Katy for additional business due diligence discussions.

In late October, of the potential purchasers that had initially expressed interest, only two potential strategic buyers, Public Company 1 and Public Company 2, remained interested in considering a transaction to purchase all or part of Katy.

After negotiations throughout October with Katy's existing lenders on an amendment to the existing credit agreement, on October 27, 2000, an amendment to the credit agreement was signed. As a part of the amendment, compliance with certain covenants required by the credit agreement was waived as of September 30, 2000, and new ratio levels for certain covenants were established for measurement at December 31, 2000. Also as part of the amendment, Katy agreed to grant the lenders under the credit agreement a security interest in all of Katy's and its subsidiaries' material assets on March 31, 2001, if certain events did not occur before February 28, 2001. Under the terms of the amendment, a security interest was not required if (1) on or before February 28, 2001, a letter of intent (satisfactory to the bank group) existed for the sale of (i) Katy as a whole or (ii) one or more of its material subsidiaries if (in the case of clause (ii)) Katy demonstrates that following such sale Katy would be in compliance with a specified leverage ratio, or (2) Katy was in compliance with

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

certain covenants at pre-amendment ratio levels.

Based on publicly available information and additional information about Katy that Kohlberg received from Katy, on October 26, 2000, including Katy's estimates for earnings before interest, taxes, depreciation and amortization ("EBITDA") for the fourth quarter and the full year 2000, Kohlberg submitted a draft preliminary indication of interest to acquire Katy for a purchase price of up to \$14.50 per Share in cash. At the request of Katy, Kohlberg submitted a revised preliminary indication of interest on October 27, 2000, to provide for a firm purchase price of \$14.50 per Share in cash. This signed indication of interest was accompanied by a letter from one of Kohlberg's prospective financing sources indicating that it was confident that it could arrange the financing needed to complete the transaction. The Kohlberg proposal contemplated the entry into a letter of intent with an exclusivity period and an expense reimbursement, together with, in the event that negotiations with certain strategic partners are exempted from the exclusivity covenant, a termination fee.

The Board of Directors considered the Kohlberg draft letter of intent with respect to its proposal at a meeting on October 27, 2000. The proposal was for the acquisition of all of Katy's outstanding shares. Part of the outstanding shares owned by the Carroll trusts would be exchanged for shares of a Kohlberg affiliate, which would acquire the balance of the outstanding shares for cash at the price of \$14.50 per share. Also at this meeting, the Board of Directors authorized the retention of Bear Stearns to

23

render a fairness opinion with respect to a transaction with Kohlberg if requested to do so.

On October 31, 2000, the Board of Directors met with representatives of Bear Stearns and Debevoise & Plimpton to consider the expressions of interest that had been received, to be updated on discussions with the other potential buyers still involved in the process and to consider the steps to be taken. At the start of the meeting, Mr. Christopher Lacovara, a principal of Kohlberg, was present and discussed and answered questions regarding Kohlberg's expression of interest. At the October 31, 2000 meeting, William Andrews, one of the directors, reminded the Board of Directors that he was a principal of Kohlberg, was a director of several of their portfolio companies, had assisted them in making a number of acquisitions and received a retainer for his services. In light of Kohlberg's interest in sponsoring an acquisition of Katy, Mr. Andrews excused himself from the meeting and stated that he would not participate in future board meetings as long as a possible transaction with Kohlberg was under consideration.

At the October 31 meeting, after Mr. Andrews excused himself, the Board of Directors also reviewed other alternatives. While Public Company 1 had signed a confidentiality agreement, it had not submitted an expression of interest. One financial sponsor ("Financial Sponsor 1") which had done only limited due diligence had submitted an expression of interest for an acquisition at a broad indicated price range (\$12 to \$15.50 per share), in a transaction in which the Carroll trusts and management would have the option of retaining a meaningful equity interest in Katy. The expression of interest was unaccompanied by expressions of interest from financing sources and contemplated a period of exclusivity and a break-up fee.

On November 2, 2000, Kohlberg delivered a draft letter of intent to Katy, which included a purchase price of \$14.50 per Share. Representatives of Katy and of Kohlberg negotiated the terms of the draft Letter of Intent between November 2 and November 6, 2000.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

On November 6, 2000, representatives of the Financial Sponsor 1, having been informed earlier of the state of negotiations with Kohlberg, had indicated that the timeline for a transaction was too rapid for it and that it had decided not to proceed at that time.

On November 6, 2000, the Board of Directors was advised of the decision of Financial Sponsor 1 not to proceed and that Public Company 1 had decided not to make a proposal at that time. Public Company 2 had scheduled some due diligence discussions with Katy. Another potential strategic buyer was interested only in Katy's abrasives businesses. After review of the improvements in the letter of intent since the initial draft received from Kohlberg, the Board of Directors (without the participation of Arthur Miller, a trustee of the Carroll family trusts, or of Wallace Carroll or Amelia Carroll) authorized the execution of the letter of intent (the "First Letter of Intent"), which was executed that day.

The First Letter of Intent provided for an acquisition of all of Katy's common stock. The Carroll family trusts would be permitted to exchange all or part of their shares

24

of Katy common stock for shares of a newly formed Kohlberg affiliate, which would acquire the other shares of common stock at a purchase price of \$14.50 per Share in cash. The First Letter of Intent contemplated a 30 day period during which Kohlberg would complete its due diligence and financing arrangements. The First Letter of Intent provided for a 45 day exclusive negotiation period with Kohlberg, but specifically exempted ongoing discussions between Katy and two named strategic buyers and also permitted discussions with unsolicited other bidders if the Board of Directors determined, after consultation with its legal and financial advisors, that failure to participate in such discussions would be inconsistent with the directors' fiduciary duties. The First Letter of Intent provided for an expense reimbursement not to exceed \$250,000 and a termination fee of \$1.5 million upon the consummation of a competing transaction, if during the term of the First Letter of Intent Katy did not enter into a definitive agreement despite Kohlberg's willingness to do so at the price and substantially on the terms contained in the First Letter of Intent.

Also on November 6, 2000, Katy issued a press release announcing that it was exploring its strategic alternatives, including the possible sale of Katy, and that it was in discussions with a potential purchaser relating to a transaction involving the purchase of Katy at a premium to its then current price.

In mid-November 2000, representatives of Kohlberg and one of its prospective financing sources toured the facilities and met with management of several Katy subsidiaries. During this period, Kohlberg reviewed transaction financing alternatives with five commercial banks and two mezzanine lenders.

In late November 2000, management of Katy informed Kohlberg that it was revising downward its EBITDA forecast for the fourth quarter and for the year 2000 and provided Kohlberg with its revised forecast.

Kohlberg thereafter revised its financial analysis based on the new information provided by management. Kohlberg also continued discussions with selected financing institutions to discuss financing for the transaction. During this period, most of the commercial banks and both of the mezzanine lenders declined to participate in the financing. Starting in late 2000, an alternative financing source, an asset-backed lender (Bankers Trust Company), commenced its due diligence efforts.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Following the completion of this revised analysis, Kohlberg informed Katy that, primarily because of the decline in expected fourth quarter results, it would not be able to complete a transaction at the price outlined in the First Letter of Intent. On November 28, 2000, Kohlberg circulated a proposed amendment to the First Letter of Intent, but without a specified price per Share, for a transaction with Katy. Mr. Lacovara informed Katy that the offer price would likely be between \$9 and \$10 a share. The Board of Directors on November 30, 2000 decided not to extend the exclusivity period, but to keep working towards a transaction with Kohlberg. The First Letter of Intent was terminated by Katy in early December 2000.

25

On December 14, 2000, Mr. Lacovara telephoned Mr. Prann and confirmed that Kohlberg had concluded that Katy's operating results and the results of Kohlberg's review of Katy did not support the valuation provided in the First Letter of Intent. Mr. Lacovara expressed interest in acquiring Katy for a purchase price of \$8.25 per Share in cash.

That day, Mr. Lacovara delivered to Katy a first draft of a merger agreement, and the Board of Directors met with representatives of Debevoise & Plimpton and Bear Stearns. The Board of Directors considered the status of discussions with Kohlberg, and also reviewed Katy's alternatives. There had been discussions with another financial sponsor, which had indicated that because of the current state of the financing markets it would not be able to bid higher than the then trading price for Katy stock (then about \$7.63 a share). That financial buyer later decided it did not wish to proceed further. Katy had not heard back from Public Company 2, which had undertaken some preliminary due diligence with Katy after the November 6 meeting. The Board of Directors also considered the alternative of continuing as an independent company. The Board had real questions as to Katy's ability to restructure its debt, and whether, if Katy sold businesses, the earnings of the remaining businesses would be consistent with Katy remaining a public company.

Because the Kohlberg proposal provided for the possibility of allowing (but not requiring) the Carroll family trusts to exchange their shares of Katy for common stock of a newly formed Kohlberg affiliate that would be the acquisition vehicle, the Board of Directors at the December 14 meeting formed a Special Committee of directors who were not connected with the Carroll family trusts to negotiate with Kohlberg. The members of the Special Committee were Charles W. Sahlman, Jacob Saliba and Daniel B. Carroll. The Special Committee was authorized to consider whether the Kohlberg proposal was in the best interests of Katy stockholders who were not part of the buying group, to negotiate with Kohlberg, and to consider and negotiate any alternatives it believed to be available. It was also authorized to give instructions to Bear Stearns and to Debevoise & Plimpton.

On December 20, 2000, Kohlberg submitted to Katy a draft of a second letter of intent (the "Second Letter of Intent"), which included a purchase price of \$8.25 per Share, a renewed exclusivity period, and provision for expense reimbursement and a termination fee. Kohlberg requested that this Second Letter of Intent be executed prior to the commencement of negotiations on the definitive merger agreement.

On December 21, 2000, the Special Committee, Bear Stearns and Debevoise & Plimpton discussed with Mr. Lacovara Kohlberg's insistence on the Second Letter of Intent, the various factors considered by Kohlberg in arriving at the price reduction, and the state of Kohlberg's financing negotiations. Mr. Lacovara indicated that Kohlberg had received an oral expression of interest from an asset-based financing source, Bankers Trust Company, in financing the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

transaction.

Before the Second Letter of Intent was executed, a member of the Special Committee and subsequently a senior officer of Katy had contacted representatives of

26

Public Company 1, and had been advised that Public Company 1 might well never submit a proposal and in any event would not consider doing so unless a transaction with another party were to be announced. The Special Committee and the Board of Directors also considered the alternative of Katy continuing on a stand-alone basis, with or without sales of businesses.

Following further negotiation of terms, and preliminary exchanges of comments on a draft merger agreement provided by Kohlberg's counsel, on January 2, 2001, Kohlberg and Katy signed the Second Letter of Intent. The Second Letter of Intent, as executed, provided for a renewed exclusivity period until the letter was terminated. Either party could terminate the Second Letter of Intent if, among other things, the definitive agreement was not signed by January 15, 2001. The Second Letter of Intent also provided for an expense reimbursement not to exceed \$500,000 and, to the extent that Kohlberg was able to sign a definitive merger agreement at \$8.25, a termination fee of \$1.5 million payable upon the consummation of a competing transaction.

By letter dated January 8, 2001, Bear Stearns was formally engaged to render an opinion as to the fairness of the proposed transaction.

After counsel for the Special Committee gave its comments on a revised draft merger agreement, representatives of Debevoise & Plimpton met on January 12, 2001 with Mr. Lacovara and representatives of Hunton & Williams to discuss the outstanding issues associated with the draft merger agreement. At that meeting, the Kohlberg representatives requested a one week extension of the specified dates in the Second Letter of Intent.

In the evening of January 15, Mr. Lacovara telephoned Mr. Prann and counsel to the Special Committee to inform them that Kohlberg had concerns with the liquidity position of Katy post-closing and that Kohlberg was considering an additional equity investment in the transaction. Mr. Lacovara indicated that the Kohlberg partnership would be meeting on January 17, 2001 to determine whether to contribute an additional \$15 million of equity, and that without that contribution, Mr. Lacovara did not feel comfortable that Kohlberg could pursue the transaction.

Given the uncertainty raised by Mr. Lacovara's update, on January 16, 2001, the Board of Directors determined to postpone a decision on the proposed amendment to the Second Letter of Intent.

On January 17, 2001, Mr. Lacovara informed Katy that the Kohlberg partners had voted against the proposed additional \$15 million equity investment and that, as a result, Kohlberg would be unable to continue working on the transaction unless an alternative solution to the liquidity concern was found. On each of January 18, 2001 and January 19, 2001, the Special Committee and representatives of Debevoise & Plimpton met with Mr. Lacovara to discuss Kohlberg's concerns and to discuss possible solutions, including the possibility of increasing the level of proposed subordinated debt financing, negotiating a deferral of payments, which would be owed upon a change of control, to the holder of preferred units in Contico, and proceeding with sales of subsidiaries of Katy. On January

27

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

19, the Special Committee authorized Mr. Prann to proceed with discussions in respect of the proposed sale of Hamilton, and authorized representatives of Kohlberg to contact directly the holder of the Contico preferred units.

In late January 2001, representatives of the Special Committee and of Kohlberg negotiated the terms of the proposed amendment to the Second Letter of Intent. Changes requested by representatives of the Special Committee included exclusions from the exclusivity covenant for discussions with (i) Public Company 1, (ii) potential purchasers of Contico's retail division, (iii) potential purchasers of Hamilton and (iv) unsolicited bidders.

In January 2001, Katy began discussion with several potential buyers of Hamilton.

In the second half of January 2001, Kohlberg representatives, seeking additional post-closing liquidity for Katy, discussed with the holder of the Contico preferred units the possible deferral of amounts otherwise payable to the holder following the closing.

On January 31, 2001, Kohlberg and Katy executed an amended letter of intent (the "Third Letter of Intent"). The Third Letter of Intent contemplated that the Carroll family trusts would convert 727,273 of their shares for shares of a newly formed Kohlberg affiliate, which would acquire the other shares of Katy common stock at a price of \$8.25 per share. The amended letter of intent contained the requested carve-outs on exclusivity during the term of the agreement, and provided for a termination fee of \$1.5 million, if Kohlberg was able to sign the merger agreement by February 5, 2001, payable upon the consummation of a competing transaction.

On February 2, 2001, representatives of Kohlberg met with members of Katy's senior management to provide an overview of the proposed transaction, to review the proposed business plan and to discuss the proposed equity program.

In mid-February 2001, Mr. Lacovara informed counsel to Katy of additional obstacles to the proposed transaction to acquire Katy, which consisted of the need to obtain an additional \$15 million in financing because of the reduction in the amount Kohlberg's proposed asset-based lender (Bankers Trust Company) was prepared to lend based on appraisals of the assets, the poor fourth quarter results, the negative earnings outlook for the first quarter of 2001 and the generally poor economic conditions. Based on these four factors, Kohlberg thought it would be difficult to complete the transaction contemplated by the Third Letter of Intent.

As a result of the above, Mr. Lacovara proposed as an alternative to the proposed acquisition transaction with Katy ("Plan A"), a recapitalization ("Plan B") under which Kohlberg would buy new equity from Katy with proceeds used to reduce existing debt to a level which could be financed by Bankers Trust Company and would buy a portion of the existing shares. This proposal eventually formed the basis for the Preferred Stock Purchase and Tender Offer.

On February 17, 2001, Mr. Lacovara sent to Katy Kohlberg's analysis of the components of both Plan A and Plan B. On February 18, 2001, Mr. Lacovara reviewed

the terms of each of Plan A and Plan B with the Special Committee, and reported on the status of efforts to find the additional financing for Plan A.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

On February 21, 2001, Kohlberg sent a draft of a revised letter of intent (the "Fourth Letter of Intent") reflecting Kohlberg's Plan B. The Fourth Letter of Intent contained a proposed price of \$7.50 per share. On February 24, Katy responded to Kohlberg, indicating that Katy was interested in exploring Plan B as set forth in the Fourth Letter of Intent, but at a higher price, and provided comments on the Fourth Letter of Intent to Kohlberg.

During February 2001, after the Third Letter of Intent was signed, Katy carried on discussions with Public Company 1 and with a potential strategic buyer of Contico's retail division. In February 2001, Public Company 1 said it was not interested in an acquisition of Katy as a whole, but was interested in Contico. Discussions with both potential buyers broke off by the end of February 2001. While Public Company 1 indicated that it continued to be interested in buying Contico, it concluded that it could not follow through on such a transaction until the second half of 2001. The other company informed Katy that it was not interested in exploring further the possible purchase of part of Contico.

In the latter half of February, Kohlberg informed Katy representatives that it could not complete Plan A because of the negative EBITDA trends, the expected debt financing shortfall and the possibility that without adequate liquidity coverage lenders might not provide financing at closing.

On March 2, 2001, after additional negotiation, Kohlberg and Katy executed the Fourth Letter of Intent. The Fourth Letter of Intent, as executed, incorporated many of the changes requested by Katy, including an increase in the purchase price from \$7.50 to \$8.00 per share. The obligation to enter into a definitive agreement was conditioned on, among other things, the execution of a letter of intent relating to the divestiture of Hamilton and the negotiation of a term sheet for the refinancing of Katy's existing bank loans. The Fourth Letter of Intent provided for expense reimbursement to Kohlberg of up to \$750,000. The Fourth Letter of Intent formed the basis for the Purchase Agreement and the Preferred Stock Purchase and Tender Offer.

On March 2, Katy issued a press release announcing that it was engaged in discussions with a potential purchaser of a substantial equity position in Katy. The press release noted that the discussions contemplated a purchase of a substantial minority stake in Katy. The press release also noted that the discussions referred to in Katy's press release of November 6, 2000 had been suspended by these discussions with the same potential purchaser.

In March 2001, Kohlberg and Katy engaged in discussions with Katy's existing lenders and with Bankers Trust Company and other potential financing sources concerning refinancing Katy's existing credit facilities.

29

On March 7, 2001, Katy entered into a non-binding letter of intent with respect to the sale of substantially all of the assets of Hamilton.

On March 7, 2001, representatives of Hunton & Williams delivered to Debevoise & Plimpton an initial draft of the Purchase Agreement. The draft Purchase Agreement was based, in large part, on the merger agreement that had previously been negotiated by Kohlberg and Katy in connection with Plan A. On March 8, 2001, representatives of Debevoise & Plimpton, on behalf of Katy, delivered to Hunton & Williams comments on the initial draft of the Purchase Agreement.

On March 9, 2001, representatives of Katy discussed the Purchase Agreement with representatives of Kohlberg and on March 12, 2001, counsel to Kohlberg distributed a revised draft of the Purchase Agreement.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

On March 12, 2001, Katy and Kohlberg extended from March 9 to March 26 the date after which either party could terminate the Fourth Letter of Intent if a definitive purchase agreement had not been executed by that date.

On March 13, 2001, counsel to Kohlberg distributed a first draft of the Voting Agreement, based in large part on the stock voting and tender agreement previously negotiated between Kohlberg and Katy in connection with Plan A.

During the period from March 12, 2001 through March 28, 2001 representatives of Katy and its legal advisers finalized the terms of the Purchase Agreement with representatives of Kohlberg and its legal advisers. Representatives of the Agreement Shareholders also negotiated the terms of the Voting Agreement with representatives of Kohlberg.

On March 17, 2001, the Board of Directors met with representatives of Bear Stearns and Debevoise & Plimpton to review the status of discussions with respect to the Purchase Agreement. On March 20, 2001, a revised draft of the Purchase Agreement was prepared and distributed to the Board of Directors. A proposed commitment letter from Bankers Trust Company to a Kohlberg affiliate to refinance the existing loans of Katy on a secured basis was also distributed to the Board of Directors.

On March 22, 2001, after meeting with representatives of Katy's senior management for an update of information about Katy's operating results and prospects, including the prospects of obtaining stand-alone financing without an equity infusion, the Board of Directors and representatives of Bear Stearns and Debevoise & Plimpton met to consider the terms of the Purchase Agreement, as negotiated, and the transactions contemplated in the Purchase Agreement. Bear Stearns presented its financial analyses to the Board of Directors. Representatives of Debevoise & Plimpton reviewed the duties of the Board of Directors and summarized the Purchase Agreement and the improvements, from the perspective of Katy's stockholders, in the terms of the Purchase Agreement negotiated since receiving the initial draft.

On March 25, 26, and 29, the Board of Directors met again with representatives of Bear Stearns and Debevoise & Plimpton. At the March 29 meeting, Bear Stearns

30

delivered to the Board of Directors its oral opinion, later confirmed in writing, to the effect that, as of that date, and subject to the matters stated in the opinion, the Preferred Stock Purchase and Tender Offer, taken as a whole, were fair to the stockholders of Katy from a financial point of view. Following further discussion and deliberation, the Board of Directors of Katy, by the unanimous vote of all directors present (Mr. Andrews was not present because of his relationship with Kohlberg): (i) approved the Purchase Agreement, the Preferred Stock Purchase and Tender Offer and the other transactions contemplated by the Purchase Agreement, (ii) determined that the terms of the Preferred Stock Purchase and Tender Offer were fair to and in the best interests of Katy's stockholders, (iii) approved amendments to Katy's Restated Certificate of Incorporation to authorize 600,000 shares of convertible preferred stock and to establish a classified Board of Directors and recommended they be submitted to the stockholders for approval, (iv) approved Purchaser's five designees, and Mr. Jacobi, who Purchaser has proposed be appointed Chief Executive Officer, as nominees for director of Katy, subject to election by the stockholders and (v) adopted an amendment to Katy's by-laws fixing at nine the number of directors constituting the whole Board of Directors.

Authorized representatives of Katy and Purchaser executed and delivered the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Purchase Agreement, and Purchaser and the Agreement Shareholders executed and delivered the Voting Agreement, as of March 29, 2001. On March 30, 2001, the execution of the Purchase Agreement was publicly announced through a press release issued by Katy.

FACTORS CONSIDERED BY THE BOARD OF DIRECTORS

The Board of Directors has approved the Purchase Agreement, the Preferred Stock Purchase and the Tender Offer and recommends that stockholders approve the Preferred Stock Purchase.

The material factors that the Board of Directors considered in connection with the Purchase Agreement, the Preferred Stock Purchase and the Tender Offer are described below. Except as noted below, the Board considered the following factors to be positive factors supporting its determination that the Preferred Stock Purchase and Tender Offer are fair to, and in the best interests of, the stockholders. The material positive factors the Board considered were:

- (1) Katy's cash resources and financial strength will increase as a result of Purchaser's cash infusion and from borrowing availability under the new credit facility with Bankers Trust Company, which would not have been provided unless Katy entered into the Purchase Agreement and the transactions contemplated by the Purchase Agreement.
- (2) The Preferred Stock Purchase will decrease the percentage of Katy's capitalization that consists of debt.
- (3) The Tender Offer and Preferred Stock Purchase will give stockholders the opportunity to sell Katy shares at a substantial premium to the market price of Katy shares before the transactions with Purchaser were

31

announced, and also to remain as stockholders in a company that will be financially strengthened by Purchaser's cash infusion.

- (4) Bear Stearns' oral opinion and supporting analysis, delivered to the Board of Directors at the March 29, 2001 meeting and later confirmed in writing, was that, as of the date of such opinion, the Preferred Stock Purchase and the Tender Offer, taken as a whole, were fair from a financial point of view to Katy's stockholders.
- (5) Before committing itself to the transactions, Katy had solicited indications of interest in acquiring Katy from a substantial number of potential buyers (strategic and financial) and held discussions with potential lenders about refinancing its indebtedness, and the Board of Directors believed that the transactions with Purchaser were the only readily available transactions that would give Katy the cash it needs to fund its ongoing operations and offer a reasonable opportunity for Katy to achieve its strategic objectives.
- (6) Despite seeking indications of interest for a sale of Katy, a number of potential acquirers visiting Katy or receiving information packages, and Katy's public announcements on November 6 and March 2, only Kohlberg submitted a written proposal after November 6, 2000.
- (7) The initial discussions with Purchaser contemplated a range of alternatives, including a sale of the entire company at \$8.25 per share, and the structure of the transaction ultimately agreed upon in negotiation allows Katy stockholders to retain a stake in Katy, giving

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

them upside potential.

(8) It is expected that, unless the transactions with Kohlberg are completed, Katy on June 30, 2001 will be in violation of financial covenants of the present credit agreement. If the transactions with Kohlberg are not completed, considering the current market environment, a substantial risk exists that Katy will be unable to obtain further waivers of the defaults under the current credit agreement and that Katy will be unable to obtain, on reasonable terms or at all, financing necessary to replace its current credit agreement. If Katy is unable to refinance its existing bank loans, the entire amount under the existing credit agreement could be declared due and payable not later than June 30, 2001.

(9) Under the terms of the Purchase Agreement:

- Katy is permitted to give information to and negotiate with third parties in response to an unsolicited acquisition proposal if a majority of the Board of Directors determines (after

32

consultation with counsel), that failure to do so would not be consistent with the directors' fiduciary duties;

- the Board of Directors can terminate the Purchase Agreement if Katy receives a superior proposal and the Board of Directors determines in good faith (after consulting with outside legal counsel) that not terminating the Purchase Agreement and entering into a new agreement to effect the superior proposal would be inconsistent with its fiduciary duties; and
- while Katy, in order to accept a superior proposal, must reimburse Purchaser up to \$1,000,000 of its expenses, and, on completing the competing proposal, pay Purchaser a termination fee of \$2,000,000, and these fees and expense reimbursement would increase the cost to a third party interested in acquiring Katy, they would not prevent a third party from making a superior proposal or acquiring Katy.

(10) The Board expected that Katy and its stockholders would benefit from Kohlberg's managerial assistance and support. Kohlberg has substantial experience in providing companies in which its affiliates invest with financial and managerial advisory services aimed at building value and improving operational, marketing and financial performance.

The Board also considered the following negative factors in making its determination. You should consider these in deciding whether to vote for the Preferred Stock Purchase:

- (11) The issuance of the convertible preferred stock will dilute the holdings of Katy's existing stockholders. Following the closing of the transactions with Purchaser under the Purchase Agreement, existing stockholders will hold a lesser proportion of common equity (calculated on a fully diluted basis).
- (12) Purchaser's significant stock ownership in Katy, its rights to nominate directors and to convert its convertible preferred stock, and the classified Board of Directors, could effectively deter a third party from making an offer to acquire Katy, which might involve a premium stock price or other benefits for stockholders, and could

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

otherwise prevent changes in control or management of Katy.

- (13) The purchase of shares tendered into the Tender Offer will reduce the number of shares of Katy common stock that are publicly held, which could increase volatility in the price of Katy's stock and adversely affect liquidity in Katy's stock.
- (14) Purchaser's nominees will constitute a majority of the Board of Directors, five of whom will serve an initial term of two years (see "Corporate Governance" on page __ of the Proxy Statement),

33

preventing major actions not supported by the Purchaser-nominated directors.

- (15) Purchaser has proposed a new Chief Executive Officer, who is also a nominee for director, and who, if elected, as director will serve for an initial term of one year.
- (16) Purchaser will have the right, so long as it retains any convertible preferred stock, to nominate a majority of the members of the Board of Directors in connection with future election of directors.
- (17) The holders of the convertible preferred stock will have preferential rights on distributions if Katy is liquidated, which means that holder of common stock will not receive any distribution on liquidation until the holders of the convertible preferred stock receive their liquidation preference.
- (18) If the Purchase Agreement is terminated then, under certain circumstances, Katy must reimburse Purchaser's expenses (up to \$1,000,000) and pay Purchaser a \$2,000,000 termination fee. For example, Purchaser will be entitled to reimbursement for expenses if stockholders do not approve the sale of convertible preferred stock to Purchaser, and to the termination fee under certain circumstances if, within 12 months after the Purchase Agreement terminates, Katy enters into another transaction for the sale of all or a major part of Katy's voting securities or assets and that other transaction is completed within 18 months of the Purchase Agreement terminating.

The Board of Directors believed that, on balance, the possible benefits to Katy stockholders from the positive factors outweighed the possible detriments from the negative factors summarized above.

In view of the variety of factors considered, the Board of Directors found it impracticable to, and did not, quantify, rank or otherwise assign relative weights to the above factors considered or determine that any factor was of particular importance in reaching its determination. Rather, the Board of Directors views this position and its recommendation as being based upon its judgment, in light of the totality of the information presented and considered, of the overall effect of the Preferred Stock Purchase and Tender Offer on the stockholders compared to any reasonably available alternative transaction.

OPINION OF BEAR STEARNS

Overview

At the March 29, 2001 meeting of Katy's Board of Directors, Bear Stearns presented the analysis of its opinion and then delivered its oral opinion, subsequently confirmed in writing, that, as of March 29, 2001, and based upon

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

and subject to the assumptions, qualifications and limitations set forth in its opinion, the Tender Offer and the Preferred Stock Purchase, taken as a whole, were fair, from a financial point of view, to the stockholders of Katy.

THE FULL TEXT OF THE FAIRNESS OPINION DATED MARCH 29, 2001, WHICH SETS FORTH, AMONG OTHER THINGS, THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND QUALIFICATIONS AND LIMITATIONS ON THE SCOPE OF THE REVIEW UNDERTAKEN BY BEAR STEARNS IN RENDERING ITS FAIRNESS OPINION, IS ATTACHED AS ANNEX

34

A TO THIS DOCUMENT. STOCKHOLDERS ARE URGED TO, AND SHOULD, READ THE FAIRNESS OPINION CAREFULLY AND IN ITS ENTIRETY. THE FAIRNESS OPINION WAS DELIVERED TO THE KATY BOARD OF DIRECTORS FOR ITS USE IN CONNECTION WITH ITS CONSIDERATION OF THE TENDER OFFER AND PREFERRED STOCK PURCHASE AND ADDRESSES ONLY, AS OF THE DATE OF THE FAIRNESS OPINION, THE FAIRNESS OF THE TENDER OFFER AND THE PREFERRED STOCK PURCHASE, TAKEN AS A WHOLE, FROM A FINANCIAL POINT OF VIEW, TO THE STOCKHOLDERS OF KATY. THE FAIRNESS OPINION IS NOT INTENDED TO BE, AND DOES NOT CONSTITUTE, A RECOMMENDATION TO THE BOARD OF DIRECTORS OF KATY OR TO ANY STOCKHOLDER OF KATY AS TO HOW TO VOTE THEIR SHARES OF COMMON STOCK OF KATY OR WHETHER OR NOT TO TENDER THEIR SHARES OF COMMON STOCK OF KATY. THE FAIRNESS OPINION DOES NOT ADDRESS THE UNDERLYING BUSINESS DECISION OF THE BOARD OF DIRECTORS OF KATY TO RECOMMEND THE TENDER OFFER AND PREFERRED STOCK PURCHASE TO THE STOCKHOLDERS OF KATY OR THE UNDERLYING BUSINESS DECISION OF KATY TO ENTER INTO THE PURCHASE AGREEMENT, THE RELATIVE MERITS OF THE TENDER OFFER AND PREFERRED STOCK PURCHASE AS COMPARED TO ANY ALTERNATIVE BUSINESS STRATEGIES THAT MIGHT EXIST FOR KATY OR THE EFFECTS OF ANY OTHER TRANSACTION IN WHICH KATY MIGHT ENGAGE. THE SUMMARY OF THE FAIRNESS OPINION SET FORTH IN THIS DOCUMENT IS QUALIFIED BY REFERENCE TO THE FULL TEXT OF THE FAIRNESS OPINION.

The terms of the Tender Offer and the Preferred Stock Purchase and the form of the consideration were determined by arm's-length negotiations between Katy and Kohlberg and were not based on any recommendation by Bear Stearns. Katy did not provide specific instructions or impose any limitations on Bear Stearns with respect to the investigations made or the procedures followed by Bear Stearns in rendering its opinion.

Bear Stearns Opinion

In connection with rendering its opinion, Bear Stearns, among other things:

- . reviewed a draft of the Purchase Agreement dated March 28, 2001;
- . reviewed a draft of the Voting Agreement dated March 28, 2001;
- . reviewed a commitment letter from Kohlberg Investors IV, L.P. to Purchaser dated March 27, 2001, relating to the Tender Offer and the Preferred Stock Purchase;
- . reviewed the commitment letter from Bankers Trust Company to Purchaser dated March 27, 2001 ("Commitment Letter");
- . reviewed Katy's Annual Reports to Shareholders and Annual Reports on Form 10-K for the years ended December 31, 1998 and 1999, its Quarterly

35

Report on Form 10-Q for the periods ended March 31, 2000, June 30,

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

2000 and September 30, 2000, its preliminary results for the year ended December 31, 2000, its Proxy Statement on Schedule 14A dated March 31, 2000, its Report on Form 8-K dated January 15, 1999 and its Report on Form 8-K/A dated March 22, 1999;

- . reviewed the Amended and Restated Credit Agreement dated as of December 11, 1998, among Katy, Bank of America National Trust and Savings Association, as Administrative Agent and Issuing Bank, La Salle National Bank, as Managing Agent, and the other financial institutions party thereto;
- . reviewed certain operating and financial information, including projections for the seven years ended December 31, 2007, provided to Bear Stearns by management relating to Katy's business and prospects;
- . met with certain members of Katy's senior management to discuss Katy's business, operations, historical and projected financial results and future prospects;
- . reviewed the historical prices, trading multiples and trading volumes of the common shares of Katy;
- . reviewed publicly available financial data, stock market performance data and trading multiples of companies which Bear Stearns deemed generally comparable to Katy;
- . reviewed the terms of selected precedent merger and acquisition transactions of, and investment transactions involving, companies which Bear Stearns deemed generally comparable to Katy or situations which Bear Stearns deemed generally comparable to the Tender Offer and the Preferred Stock Purchase, taken as a whole;
- . performed discounted cash flow analyses based on the projections for Katy furnished to Bear Stearns by the management of Katy;
- . reviewed the pro forma financial results, financial condition and capitalization of Katy giving effect to the Tender Offer and the Preferred Stock Purchase, taken as a whole, and the refinancing contemplated by the Commitment Letter; and
- . conducted such other studies, analyses, inquiries and investigations as Bear Stearns deemed appropriate.

Bear Stearns has relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information, including without limitation the projections, provided to it by Katy. With respect to Katy's projected financial results, Bear Stearns has assumed that they have been reasonably prepared on

36

bases reflecting the best currently available estimates and judgments of the senior management of Katy as to the expected future performance of Katy. Bear Stearns does not assume any responsibility for the independent verification of any such information or of the projections provided to it, and it has further relied upon the assurances of the senior management of Katy that they are unaware of any facts that would make the information or projections provided to Bear Stearns incomplete or misleading.

In arriving at its opinion, Bear Stearns has taken into account, with Katy's consent, the risks inherent in Katy's current business plans, including

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

the view of the senior management of Katy that in the current capital markets environment there exists a risk that Katy would be unable in the future to obtain continued waivers of the defaults under its current credit facility and that Katy would be unable to obtain, on reasonable terms, financing necessary to replace its current credit facility. Bear Stearns has also considered that, according to the senior management of Katy, (i) no other potential investor or acquiror has made any investment or acquisition proposal to Katy since November 6, 2000 (the date of the public announcement by Katy that it was exploring its strategic alternatives, including the possible sale of Katy, and that it was in discussions with a potential purchaser relating to a possible purchase of Katy) or since March 2, 2001 (the date of the public announcement by Katy that it was engaged in discussions with a potential purchaser of a substantial equity position in Katy) and (ii) the prospects for obtaining access to additional financing in the public or private capital markets are limited.

In arriving at its opinion, Bear Stearns has not performed or obtained any independent appraisal of the assets or liabilities (contingent or otherwise) of Katy, nor has Bear Stearns been furnished with any such appraisals. In connection with its engagement, Bear Stearns was not requested to, and it did not, solicit third party indications of interest involving an investment in, a recapitalization of, or acquisition of all or part of, Katy. Bear Stearns assumed that the Tender Offer and the Preferred Stock Purchase and the refinancing contemplated by the Commitment Letter will be consummated in a timely manner and in accordance with the terms of the Purchase Agreement and the Commitment Letter without any limitations, restrictions, conditions, amendments or modifications that collectively would have a material effect on Katy.

Bear Stearns did not express any opinion as to the price or range of prices at which the shares of common stock of Katy may trade subsequent to the announcement of the Tender Offer and the Preferred Stock Purchase and the refinancing contemplated by the Commitment Letter or as to the price or range of prices at which the shares of common stock of Katy may trade subsequent to the consummation of the Tender Offer and the Preferred Stock Purchase and the refinancing contemplated by the Commitment Letter.

Summary of Analysis

The following is a brief summary of the material valuation and financial and comparative analyses considered by Bear Stearns in connection with the rendering of its opinion. This summary does not purport to be a complete description of the analyses

37

underlying the Bear Stearns opinion and is qualified in its entirety by reference to the full text of its opinion.

In performing its analysis, Bear Stearns made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Bear Stearns, Katy and Kohlberg. Any estimates contained in the analysis performed by Bear Stearns are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analysis. In addition, as described above, the Bear Stearns opinion was one among several factors taken into consideration by the Katy Board of Directors in making its determination to approve the Tender Offer and Preferred Stock Purchase.

Historical Stock Price Performance of Katy. Bear Stearns reviewed the trading volume and price history of Katy's common stock on the New York Stock Exchange for the period from March 28, 2000 through March 28, 2001 and for the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

period from March 28, 1996 through March 28, 2001. Bear Stearns also reviewed the relationship between movements in the closing prices of Katy's common stock, the S&P 500 Index and an index of other selected industrial companies (see Comparable Company Analysis below) for the period from March 28, 2000 through March 28, 2001 and for the period from March 28, 1996 through March 28, 2001. Bear Stearns noted that Katy's common stock had underperformed the S&P 500 Index for the period from March 28, 2000 through March 28, 2001 and for the period from March 28, 1996 through March 28, 2001. Additionally, Bear Stearns noted that Katy's common stock had underperformed the index of other selected industrial companies for the period from March 28, 2000 through March 28, 2001 and for the period from March 28, 1996 through March 28, 2001.

Comparative Analysis of Tender Offer and Preferred Stock Purchase Versus Status Quo. Bear Stearns compared the per share value of the Tender Offer and Preferred Stock Purchase, taken as a whole, to the per share value of Katy's outstanding common stock as of March 28, 2001. To estimate the value per share of the Tender Offer and Preferred Stock Purchase, Bear Stearns analyzed (i) the cash to be distributed in the Tender Offer and (ii) the pro forma value per share of Katy's common stock after giving effect to the Tender Offer and Preferred Stock Purchase and transaction-related fees and expenses and the sale of Hamilton.

Assuming full participation in the Tender Offer, Bear Stearns calculated the value of the cash to be distributed in the Tender Offer to 29.8% of Katy's common stock to be approximately \$2.38 per share. The pro forma value per share of Katy's common stock, after giving effect to the Tender Offer and Preferred Stock Purchase and transaction related fees and expenses and the sale of Hamilton, was calculated by using a range of multiples of enterprise value/latest twelve month ("LTM") earnings before interest, taxes, depreciation and amortization, referred to as EBITDA. Bear Stearns selected a range of enterprise value/LTM EBITDA multiples of 5.25x to 6.25x based on its review of the following: (i) an analysis of Katy's historical enterprise value/LTM EBITDA multiples, (ii) an analysis of certain publicly traded companies deemed by Bear Stearns to be generally comparable to Katy (see Comparable Company Analysis below) and (iii) a theoretical discounted cash flow analysis, adjusted for the Tender Offer and

38

Preferred Stock Purchase and transaction-related fees and expenses and the sale of Hamilton. This analysis resulted in an implied reference range for the pro forma equity value of Katy's remaining common stock of approximately \$4.33 per share to \$6.38 per share.

Bear Stearns added the cash value per share to be distributed in the Tender Offer to the range of implied pro forma equity values per share to arrive at a range of implied values per share for the Tender Offer and Preferred Stock Purchase, taken as a whole, of approximately \$6.71 per share to \$8.76 per share. Bear Stearns noted that this implied reference range represented a premium of approximately 9.0% to 42.4% over the \$6.15 closing price per share of Katy's common stock on March 28, 2001.

Comparable Company Analysis. Bear Stearns analyzed selected historical and projected operating information, stock market performance data and valuation multiples for Katy and compared this data to that of certain publicly traded companies deemed by Bear Stearns to be generally comparable to Katy. Bear Stearns compared, among other things, (i) enterprise value/LTM EBITDA, (ii) enterprise value/LTM earnings before interest and taxes, referred to as EBIT, (iii) market value/LTM net income and (iv) closing stock price/2001 estimated earnings per share, referred to as EPS. All multiples were based on closing stock prices for the comparable companies on March 28, 2001, and LTM is as of September 30, 2000.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Comparable Trading Multiples

	Enterprise Value/LTM		Market Value	Price/20
	EBITDA	EBIT	LTM/Net Income	Estimated
Chart Industries, Inc.	7.7x	12.7x	NM	13.6
The Middleby Corporation	4.5	5.9	12.5x	10.0
Myers Industries, Inc.	4.6	7.4	8.6	9.0
Park-Ohio Holdings Corporation	5.5	7.5	3.6	3.3
Standex International Corporation	5.8	7.1	9.5	NA
Harmonic Mean/(1)/	5.4x	7.6x	6.9x	6.8
Katy Industries, Inc./ (2)/	5.8x	12.9x	12.4x	67.9

(1) Harmonic mean represents the reciprocal of the arithmetic mean of reciprocals.

(2) Multiples calculated at the midpoint of the implied value of the Tender Offer and Preferred Stock Purchase, taken as a whole (see Comparative Analysis of Tender Offer and Preferred Stock Purchase Versus Status Quo above).

It should be noted that companies with financial challenges, similar to Katy, would be expected to trade at multiples close to the bottom end of the range of comparable companies. Additionally, Katy's LTM EBITDA margin of 7.4% is lower than that of all of the comparable companies. Companies with LTM EBITDA margins

39

materially below the comparable companies would be expected to trade at multiples close to the bottom end of the range.

No company utilized in the peer group comparison is identical to Katy, and, accordingly, Bear Stearns' analysis of comparable companies necessarily involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors which would necessarily affect the relative trading values of Katy compared to the companies to which Katy was compared.

Selected Mergers and Acquisition Transactions of Comparable Companies. Using publicly available information, Bear Stearns reviewed the purchase prices and implied transaction multiples paid or proposed to be paid in 24 selected transactions. The following 14 transactions were selected because the target company's businesses were deemed by Bear Stearns to be generally comparable to one or more of Katy's businesses:

Comparable Business Transactions

Target Company	Acquiring Company
L.E. Mason Company Easco Inc.	Thomas & Betts Corporation Caradon PLC

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Belden Inc. (Cord Products Division)	Volex Group PLC
Noma Industries Limited	General Chemical Group, Inc.
American Safety Razor Company	J.W. Childs Associates
Contico International, Inc	Katy Industries, Inc.
Newell Plastics	Home Products International Inc.
Tenex Corporation (Consolidated Storage Line)	Home Products International Inc.
Wilten Companies, Inc.	Katy Industries, Inc.
Sun Coast Industries, Inc.	Kerr Group, Inc.
PureTec Corporation	Tekni-Plex Inc.
Seymour Housewares	Home Products International Inc.
Tamor Corporation	Home Products International Inc.
GC Thorsen, Inc.	Katy Industries, Inc.

The following 10 transactions were selected because the target companies were diversified industrial micro-cap companies and were deemed by Bear Stearns to be generally comparable to Katy, given their size and diverse industrial profile and because each was acquired by a financial sponsor, similar to Kohlberg:

Diversified Industrial Micro-Cap Transactions

Target Company	Acquiring Company
Cascade Corporation	Lift Technologies, Inc./TD Capital Group Ltd./Ontario Municipal Employees Retirement Board
Simpson Industries, Inc. General Bearing Corporation	Heartland Industrial Partners, L.P. Management Group

40

Target Company	Acquiring Company
U.S. Can Corporation Jason Inc. Transportation Technologies Industries, Inc. Gleason Corporation Autocam Corporation Synthetic Industries, Inc. Citation Corporation	Berkshire Partners Saw Mill Capital, LLC Management Group Vestar Capital Partners Aurora Capital Group Investcorp SA Kelso & Company

Bear Stearns compared, among other things, (i) enterprise value/LTM EBITDA, (ii) enterprise value/LTM EBIT and (iii) equity value/LTM net income. All multiples were based on implied enterprise values and implied equity values of each proposed transaction and LTM is based upon the most recently available financial statements as of the announcement date of each proposed transaction.

Selected Mergers and Acquisition Transactions of Comparable Companies

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

	Enterprise Value/LTM		
	EBITDA	EBIT	Equity Value/LTM Net Income
Comparable Business Transactions:			
Harmonic Mean/(1)/	6.5x	9.7x	13.0x
Diversified Industrial Micro-Cap Transactions:			
Harmonic Mean/(1)/	5.9	9.0	13.0
All Selected Mergers and Acquisition Transactions of Comparable Companies:			
High	9.0	16.2	25.3
Harmonic Mean/(1)/	6.2	9.3	13.0
Low	5.2	6.2	6.8
Katy Industries, Inc./(2)/	5.8x	12.9x	12.4x

(1) Harmonic mean represents the reciprocal of the arithmetic mean of reciprocals.

(2) Multiples calculated at the midpoint of the implied value of the Tender Offer and Preferred Stock Purchase, taken as a whole (see Comparative Analysis of Tender Offer and Preferred Stock Purchase Versus Status Quo above).

It should be noted that a number of the 14 transactions involving a target company with a business deemed generally comparable to one or more of Katy's businesses were consummated at multiples above the Katy transaction. This is not unexpected for the following reasons: (i) all of these transactions were strategic in nature, and strategic transactions typically yield synergistic benefits to the acquirer, (ii) all of the transactions were consummated in better economic environments than exist today and (iii) Katy is experiencing a number of financial challenges that were not present in a majority of the target companies. Additionally, a number of the 10 transactions involving target companies that were diversified industrial micro-cap companies were consummated at

41

multiples above the Katy transaction. This is not unexpected for the following reasons: (i) all of the transactions were consummated by financial buyers in significantly better financing environments, (ii) all of the transactions were consummated in better economic environments than exist today and (iii) Katy is experiencing a number of financial challenges that were not present in the majority of the target companies.

Bear Stearns noted that none of the transactions reviewed were identical to the Tender Offer and Preferred Stock Purchase. Bear Stearns further noted that the analysis of mergers and acquisition transactions of comparable companies necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that would necessarily affect the acquisition value of Katy as compared to the acquisition value of any other comparable company in general and the transactions above in particular.

Theoretical Discounted Cash Flow Analysis. Bear Stearns performed a discounted cash flow analysis for Katy in order to determine a range of equity values per share for Katy. Projected financial data for Katy was based on estimates provided to Bear Stearns by Katy's management, assuming the Tender Offer and Preferred Stock Purchase and related transactions are not entered into

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

and no other comparable transaction is entered into by Katy. In performing its theoretical discounted cash flow analysis, Bear Stearns calculated after-tax cash flows for the seven-year period commencing January 1, 2001, and ending on December 31, 2007. Katy's cash flows were discounted to present value using discount rates ranging from 11.0% to 13.0%. Bear Stearns calculated a terminal value for Katy by applying to Katy's projected EBITDA for 2007 a range of multiples of 4.25x to 5.25x. Bear Stearns determined that this range of multiples was appropriate for valuing Katy's business based on the implied perpetual growth rates of free cash flow derived from such multiples. This analysis resulted in an implied reference range for the equity value of approximately \$3.16 per share to \$9.29 per share.

Bear Stearns noted that the theoretical discounted cash flow analysis was highly dependent on growth rates and margin assumptions relating to the underlying projections and that such projections were difficult to forecast due to the rapidly changing nature of Katy's business plan and the capital markets climate. Consequently, Bear Stearns observed that the resulting discounted cash flow valuation is inherently theoretical due to the difficulty in forecasting projected operating results as well as assumptions relating to, among other factors, the availability of sufficient capital, the cost of such capital and assessing implied perpetual growth rates beyond the forecast period.

Leveraged Buyout Analysis. Bear Stearns conducted two leveraged buyout analyses assuming a 100% acquisition of Katy's common stock by a generic financial buyer using the following two financing scenarios: (i) traditional cash flow financing and (ii) asset-based financing. Projected financial data for Katy was based on estimates provided to Bear Stearns by Katy's management. Bear Stearns noted that the proposed transaction did not involve a 100% acquisition of the outstanding common stock of Katy. Bear Stearns further considered Katy's recent financial performance, the current state of the financing markets, the required rates of return for participants in the financial buyer community and the difficulty of completing any leveraged buyout for Katy, and determined that the leveraged buyout analysis was not relevant to the conclusions set forth in its opinion.

42

Theoretical Discounted Future Stock Price Analysis. Bear Stearns performed a discounted future stock price analysis for Katy in order to determine a range of equity values per share of Katy common stock. Projected financial data for Katy was based on estimates provided to Bear Stearns by Katy's management. In calculating its theoretical discounted future stock price, Bear Stearns calculated a range of projected stock prices by using Katy's estimated EPS figure ending December 31, 2003 and applying a range of forward price/earnings ratios, referred to as P/E ratios. Bear Stearns used a range of forward P/E ratios of 6.0x to 8.0x based on the harmonic mean (the reciprocal of the arithmetic mean of reciprocals) of the estimated 2001 P/E ratios of comparable companies ending December 31, 2001 of 6.8x (see Comparable Company Analysis above). Katy's projected stock prices were discounted to present value using discount rates ranging from 13.0% to 17.0%. The analysis resulted in an implied reference range for the equity value of approximately \$4.08 per share to \$5.83 per share.

Bear Stearns noted that the theoretical discounted future stock price analysis was highly dependent on growth rates and margin assumptions relating to the underlying projections and that such projections were difficult to forecast due to the rapidly changing nature of Katy's business plan. Consequently, Bear Stearns observed that the resulting discounted future stock price valuation is inherently theoretical due to the difficulty in forecasting projected operating results as well as assumptions relating to, among other factors, Katy's required rate of return on equity and estimated forward P/E ratio.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Precedent Investment Transactions. Bear Stearns analyzed and summarized three precedent investment transactions in which private equity investors purchased significant equity stakes directly from publicly traded corporations and were granted certain rights, including representation on the Board of Directors of the issuing corporation. These three transactions were (i) the investment by Haas Wheat & Harrison Incorporated in Playtex Products, Inc., (ii) the investment by Kohlberg Kravis Roberts & Co. in TW Holdings, Inc. and (iii) the investment by E.M. Warburg Pincus Ventures, L.P. in Western Publishing Group, Inc. (collectively, the "Precedent Investment Transactions").

Bear Stearns noted that none of the Precedent Investment Transactions were identical to the Tender Offer and Preferred Stock Purchase and that, accordingly, any analysis of the Precedent Investment Transactions necessarily involved complex considerations and judgments concerning differences in transaction structures, financial and operating characteristics of the issuing corporation and other factors that would necessarily affect the terms of the Tender Offer and Preferred Stock Purchase versus the terms of the Precedent Investment Transactions. Notwithstanding the numerous and significant differences between the Tender Offer and Preferred Stock Purchase and the Precedent Investment Transactions, this analysis provided a useful benchmark as to certain structural, corporate governance and financial aspects of such investment transactions.

Other Considerations

The preparation of a fairness opinion is a complex process that involves various judgments and determinations as to the most appropriate and relevant methods of

43

financial and valuation analysis and the application of those methods to the particular circumstances. The opinion is, therefore, not necessarily susceptible to partial analysis or summary description. Bear Stearns believes that its analysis must be considered as a whole and that selecting portions of its analyses and the factors considered, without considering all of the analyses and factors, would create a misleading and incomplete view of the processes underlying its opinion. Bear Stearns did not form any opinions as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support its opinion. In arriving at its opinion, Bear Stearns did not assign any particular weight to any analysis or factor considered, but rather made qualitative judgments based upon its experience in providing such opinions and on then-existing economic, monetary, market and other conditions as to the significance of each analysis and factor. In performing its analyses, Bear Stearns, at Katy's direction and with Katy's consent, made numerous assumptions with respect to industry performance, general business conditions and other matters, many of which are beyond the control of Bear Stearns, Katy and Kohlberg. Any assumed estimates implicitly contained in Bear Stearns' opinion or relied upon by Bear Stearns in rendering its opinion do not necessarily reflect actual values or predict future results or values. Any estimates relating to the value of a business or securities do not purport to be appraisals or to necessarily reflect the prices at which companies or securities may actually be sold.

Bear Stearns was retained by Katy based upon its qualifications, experience and expertise. Bear Stearns is an internationally recognized investment banking firm that regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estates, corporate and other purposes. In

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

the ordinary course of business, Bear Stearns may actively trade the equity and/or debt securities of Katy for its own account and the account of its customers and, accordingly, may at any time hold a long or short position in such securities.

Pursuant to an engagement letter, Katy agreed to pay to Bear Stearns a total fee of \$900,000 payable to Bear Stearns upon its rendering of its fairness opinion to Katy's Board of Directors. In addition, Katy agreed to reimburse Bear Stearns for all reasonable out-of-pocket expenses incurred by Bear Stearns in connection with the Tender Offer and Preferred Stock Purchase including the reasonable fees of and disbursements to its legal counsel. Katy has also agreed to indemnify Bear Stearns against specific liabilities in connection with its engagement, including liabilities under the federal securities laws.

INFORMATION ABOUT PURCHASER AND KOHLBERG

Purchaser is a Delaware limited liability company formed by Kohlberg & Co., L.L.C. for the purpose of making the proposed Preferred Stock Purchase and Tender Offer. As of the consummation of the Tender Offer and the Preferred Stock Purchase, a majority of the outstanding membership interests of Purchaser will be beneficially owned in the aggregate by Kohlberg Investors IV, L.P., Kohlberg TE Investors IV, L.P., Kohlberg Offshore Investors, IV, L.P. and Kohlberg Partners IV, L.P. (collectively referred to as the "Kohlberg Fund IV"). Kohlberg Fund IV has committed to fund Purchaser with \$60 million, to enable it to complete the Preferred Stock Purchase and

44

Tender Offer. Kohlberg is a private merchant banking firm with offices in New York and California that manages a pool of capital of more than \$1.5 billion. Kohlberg has substantial experience in providing companies in which its affiliates invest with financial and managerial advisory services aimed at building value and improving operational, marketing and financial performance.

PROPOSAL 2 - TO AUTHORIZE 600,000 SHARES OF CONVERTIBLE PREFERRED STOCK

GENERAL

On March 29, 2001, the Board of Directors approved an amendment to Katy's Restated Certificate of Incorporation, subject to the stockholder's authorization and adoption, to authorize 600,000 shares of convertible preferred stock. The terms of the convertible preferred stock are more fully described under "Terms of the Convertible Preferred Stock" on page ___ of the Proxy Statement. The full text of the amendment is included as Annex D to this Proxy Statement.

No shares of preferred stock are currently authorized or outstanding. Katy must authorize the convertible preferred stock in order to create the convertible preferred stock and to consummate the Preferred Stock Purchase.

REQUIRED VOTE

Under Delaware law, an amendment to Katy's Restated Certificate of Incorporation requires the affirmative vote of the holders of a majority of Katy's outstanding stock entitled to vote at the Annual Meeting. Approval of this proposal is contingent on stockholders approving Proposal 1 (the Preferred Stock Purchase) and Proposal 3 (establishing a classified Board of Directors).

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MATTERS SET FORTH IN

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

PROPOSAL 2 AND BELIEVES THAT THEY ARE ADVISABLE, FAIR TO AND IN THE BEST INTERESTS OF KATY AND ITS STOCKHOLDERS AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF PROPOSAL 2.

PROPOSAL 3 - ESTABLISHING A CLASSIFIED BOARD OF DIRECTORS

The Board of Directors has adopted a resolution proposing an amendment to Katy's Restated Certificate of Incorporation classifying the Board of Directors into two

45

classes with staggered terms (the "Classified Board Amendment"). At present, Katy's Board of Directors consists of a single class of nine directors, all of whom are elected at each annual meeting of stockholders. The Classified Board Amendment would classify the Board of Directors into two separate classes as nearly equal in number as possible, with one class being elected each year to serve a staggered two-year term.

Members in each class would be elected at the May __, 2001 annual meeting. Directors initially elected in Class I (C. Michael Jacobi, Robert M. Baratta, Daniel B. Carroll and Wallace E. Carroll, Jr.) would serve until the annual meeting of stockholders in 2002. Directors initially elected in Class II (Christopher Anderson, William F. Andrews, Samuel P. Frieder, James A. Kohlberg and Christopher Lacovara) would serve until the annual meeting of stockholders in 2003. Beginning with the election of directors to be held at the year 2002 annual meeting, each class of directors would be elected for a two-year term.

To preserve the classified board structure, the proposed amendment to establish a classified Board also provides that a director elected by the Board of Directors to fill a vacancy holds office until the next election of the class for which such director has been chosen, and until that director's successor has been elected and qualified or until his or her earlier resignation, removal and death.

Delaware law provides that, if a corporation has a classified board, unless the corporation's certificate of incorporation specifically provides otherwise, the directors may only be removed by the stockholders for cause. Proposal 3 does not provide for removal of directors other than for cause. Therefore, if Proposal 3 is adopted, stockholders can remove directors of Katy for cause, but not in other circumstances.

The approval of the Classified Board Amendment by Katy's stockholders is a condition to Purchaser's obligations under the Preferred Stock Purchase and Tender Offer. Unless a director is removed or resigns, two annual elections are needed to replace all of the directors on the classified Board. The Classified Board Amendment may, therefore, discourage an individual or entity other than Purchaser from acquiring a significant position in Katy's stock with the intention of obtaining immediate control of the Board of Directors.

The Classified Board Amendment is intended to assure Purchaser that its five nominees will, if the transactions close, constitute a majority of the Board for at least the next two years. It could also:

- encourage persons seeking to acquire control of Katy to initiate the acquisition through arm's-length negotiations with Katy's management and Board of Directors;
- discourage a third party from making a tender offer (or otherwise attempting to obtain control of Katy), even though such an attempt might benefit Katy and its stockholders;

- discourage accumulations of large blocks of Katy's stock and fluctuations in the market price of Katy's stock caused by accumulations (so that stockholders lose opportunities to sell their shares at temporarily higher prices);
- entrench incumbent management by discouraging a proxy contest, a holder of a substantial block of Katy's outstanding shares (other than Purchaser) assuming control of Katy, or the removal of incumbent directors or the change of control of the Board of Directors; and
- reduce the possibility that a third party could effect a sudden or surprise change in control of the Board of Directors without the support of the then incumbent Board of Directors.

At the same time, the Classified Board Amendment would ensure that the Board of Directors and management, if confronted by a surprise proposal from a third party who had acquired a block of Katy's stock, would have time to review the proposal and appropriate alternatives to the proposal and possibly to attempt to negotiate a better transaction.

Moreover, the Classified Board Amendment is a condition to Purchaser completing the Preferred Stock Purchase and Tender Offer, and is an essential part of the transactions with Kohlberg, which the Board of Directors has determined are fair to and in the best interests of Katy and its stockholders. In addition, one of the benefits to Katy and its stockholders the Board of Directors expects from the Kohlberg transactions is access to Kohlberg's managerial experience and talents, and the Classified Board Amendment should help foster that access.

The complete text of the proposed amendment to Keystone's Restated Certificate of Incorporation, which includes the Classified Board Amendment, is attached as Annex D. You should read Annex D in its entirety.

REQUIRED VOTE

Under Delaware law, an amendment to the Restated Certificate of Incorporation requires the affirmative vote of the holders of a majority of Katy's outstanding stock entitled to vote at the Annual Meeting. Approval of this proposal is contingent on the stockholders approving Proposal 1 (the Preferred Stock Purchase) and Proposal 2 (the authorization of the convertible preferred stock).

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MATTERS SET FORTH IN PROPOSAL 3 AND BELIEVES THAT THEY ARE ADVISABLE, FAIR TO AND IN THE BEST INTERESTS OF KATY AND ITS

STOCKHOLDERS AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF PROPOSAL 3.

PROPOSAL 4 - ELECTION OF DIRECTORS

NOMINEES

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Katy's business is managed under the direction of its Board of Directors. There are currently nine directors. Stockholders will elect nine directors at the Annual Meeting to serve for a one year term ending at the time of the 2002 annual meeting or, if stockholders adopt Proposals 1, 2 and 3, for the staggered terms specified below.

If stockholders approve Proposal 1, Proposal 2 and Proposal 3, the persons named in the accompanying proxy intend to vote the shares represented by the proxy for the classification of the nine nominees identified below into two classes and their election to serve as Katy directors for the terms set forth below until their successors are elected and qualified.

Nominees for Election Whose Terms Will Expire 2002 (Class I):

C. Michael Jacobi
Robert M. Baratta
Daniel B. Carroll
Wallace E. Carroll, Jr.

Nominees for Election Whose Terms Will Expire 2003 (Class II):

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

It is anticipated that Mr. Jacobi will become the Chief Executive Officer of Katy effective upon closing.

If stockholders defeat Proposal 1, Proposal 2 or Proposal 3, the persons named in the accompanying proxy intend to vote in favor of the current directors of Katy to serve for a term of one year and until their successors are elected and qualified. Accordingly, a vote against Proposal 1, Proposal 2 or Proposal 3 should be considered a vote against the above nominees and in favor of the current directors of Katy. The current directors of Katy are: William F. Andrews, Robert M. Baratta, Amelia M. Carroll, Daniel B. Carroll, Wallace E. Carroll, Jr., Arthur R. Miller, Charles W. Sahlman, Jacob Saliba and Glenn W. Turcotte.

48

If a nominee who has expressed an intention to serve if elected fails to stand for election, the persons named in the proxy intend to vote for a substitute nominee designated by the Board of Directors. For information concerning the nominees for director and the current directors, see "Information Concerning Directors and Executive Officers," "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners." Nominations are made in order to provide that directors are divided into two classes, as nearly equal in number as possible.

As described above (see "Corporate Governance" on page ___ of the Proxy Statement), under the Purchase Agreement Purchaser has the right to nominate five directors for election at the Annual Meeting, subject to their election by the holders of common stock present in person or by proxy and voting at the Annual Meeting. Christopher Anderson, William F. Andrews, Samuel P. Frieder, James A. Kohlberg and Christopher Lacovara are the Purchaser's nominees. In addition, Purchaser has proposed C. Michael Jacobi, the prospective Chief Executive Officer if the transactions with Kohlberg are completed, to serve as director as well. It is a condition of Purchaser's obligations under the Preferred Stock Purchase and Tender Offer that stockholders elect the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Purchaser's nominees at the Annual Meeting.

Christopher Anderson, Samuel P. Frieder, James A. Kohlberg and Christopher Lacovara, as well as C. Michael Jacobi, have indicated that they will not stand for election if stockholders defeat any of Proposal 1, Proposal 2 or Proposal 3. If stockholders defeat Proposal 1, Proposal 2 or Proposal 3 the persons named in the proxy intend to vote for the current directors.

If stockholders approve Proposals 1, 2 and 3, and the Kohlberg nominees and Mr. Jacobi are elected to the Board of Directors in accordance with this Proposal 4, but the Preferred Stock Purchase and Tender Offer do not close in accordance with the terms of the Purchase Agreement, the Kohlberg nominees and Mr. Jacobi have indicated that they will immediately resign from the Board of Directors. The remaining directors are expected to fill the vacancies from the other members of the current Board of Directors.

REQUIRED VOTE

Directors are elected by the affirmative vote of a plurality of the votes cast at the Annual Meeting.

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MATTERS SET FORTH IN PROPOSAL 4 AND BELIEVES THAT THEY ARE FAIR TO AND IN THE BEST INTEREST OF KATY AND ITS STOCKHOLDERS AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF PROPOSAL 4.

49

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

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

Nominees

The following table shows information about the nominees to Katy's Board of Directors who are not currently Katy directors. Such persons, all of whom have been proposed by Kohlberg, are the Board's nominees subject to stockholders first approving Proposal 1, Proposal 2 and Proposal 3. Kohlberg also proposed Mr. Andrews, a current Katy director. Mr. Andrews is a nominee to the Board irrespective of whether stockholders approve Proposal 1, Proposal 2 and Proposal 3. All the Kohlberg nominees have been nominated as Class II directors. In addition, Robert M. Baratta, Daniel B. Carroll and Wallace E. Carroll, Jr., each of whom are current directors, are also nominees to the Board irrespective of whether stockholders approve Proposal 1, Proposal 2 and Proposal 3. If stockholders do not approve Proposal 1, Proposal 2 and Proposal 3, the Board's nominees are the current Katy directors, information on whom is set out below under "Current Directors", and not the following nominees.

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships
-----	---	-----	-----
Christopher Anderson	26	1998 to present: Associate at Kohlberg 1997 to 1998: Financial Analyst at	

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Warburg Dillon Read L.L.C.

Samuel P. Frieder	36	1989 to present: Principal of Kohlberg	Color Spot Nurseries Inc. Holley Performance Products Inc.
-------------------	----	--	---

50

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships
-----	-----	-----	-----
C. Michael Jacobi (proposed President and Chief Executive Officer upon closing of the Preferred Stock Purchase and Tender Offer)	57	1999 to present: Consultant 1993 to 1999: Chief Executive Officer, President, and a director of Timex Corporation, a leading worldwide manufacturer and marketer of watches 1999 to 2000: Chairman of Timex Watches Limited (India), a publicly held company headquartered in New Delhi, India 1999 to 2000: Chairman and Chief Executive Officer of Beepwear Paging Products, LLC, a company jointly owned by Timex Corporation and Motorola, Inc. 1993 to 1999: Chairman of Callanen International, a company engaged in the fashion watch business	Corrections Corporation of America Webster Financial Corporation
James A. Kohlberg	43	1987 to present: Co-Founder and Managing Principal of Kohlberg	Color Spot Nurseries Inc. Holley Performance Products Inc.
Christopher Lacovara	36	1988 to present: Principal of Kohlberg	Holley Performance Products Inc. Northwestern Steel and Wire Company

Current Directors

The following table shows information about the current Katy directors. William F. Andrews, Robert M. Baratta, Daniel B. Carroll and Wallace E. Carroll, Jr. are

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

nominees to the Board irrespective of whether Proposal 1, Proposal 2 and Proposal 3 are approved. Amelia M. Carroll, Arthur R. Miller, Charles W. Sahlman, Jacob Saliba and Glenn W. Turcotte are nominees to the Board only if Proposal 1, Proposal 2 or Proposal 3 have not been approved.

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships	Period of Service as Katy Director
William F. Andrews	69	2000 to Present: Chairman of Corrections Corp. of America, a private sector provider of detention and corrections services 1997 to present: Principal of Kohlberg & Co. 1998 to present: Chairman of Northwestern Steel & Wire Company, a manufacturer of steel rods and beams 1995 to present: Chairman of Scovill Fasteners, a manufacturer of apparel and industrial fasteners	Johnson Controls Inc. Navistar Northwestern Steel & Wire Company Black Box Corporation Corrections Corporation of America Holly Performance Products Inc.	1991 to present
Robert M. Baratta	71	2001 (February) to present: President and Chief Executive Officer and director of Katy 1999 to 2000 (June): Senior Vice President of Katy 1995 to 1999: Executive Vice President of Katy 1990 to present: President of Katy-Seghers, Inc., a		2001 (February) to present

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Name	Age	and Business Experience During the Past Five Years	Other Directorships	Service as Katy Director
		holding company for a subsidiary engaged in waste-to-energy operations		
Amelia M. Carroll	58	1991 to present: Investor		1996 to present
Daniel B. Carroll	65	1998 to present: Member and Manager of Newgrange LLC, a components supplier to the global footwear industry 1994 to present: Partner of Newgrange LP, a holding company for Newgrange LLC, a components supplier to the global footwear industry 1985 to present: Vice President of ATP Manufacturing, LLC, a manufacturer of molded polyurethane components		1994 to present
Wallace E. Carroll, Jr.	63	1992 to present: Chairman of CRL, Inc., a diversified holding company 1987 to present: Investor		1991 to present
Arthur R. Miller	50	1998 to present: Executive Vice President, Corporate Development, Secretary and		1988 to present

53

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships	Period of Service as Katy Director
		General Counsel of Katy		

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

		1988 to 1998: Partner with Holleb & Coff, attorneys at law		
Charles W. Sahlman	74	1987 to present: President, Sahlman Holding Company, Inc., a holding company (43% owned by Katy) for subsidiaries engaged in seafood harvesting		1972 to present
Jacob Saliba	87	1997 to present: Chairman of the Board of Katy	RCM Dresdner Global Funds	1968 to present
Glenn W. Turcotte	60	2000 to present: Senior Vice President 1998 to 2000: Executive Vice President and Chief Operating Officer of Katy 1993 to 1998: Executive Vice President of Katy; President of Glit Division of Hallmark Holdings Inc., a manufacturer of nonwoven floor maintenance pads and specialty abrasive products, a		1995 to present

54

Name	Age	Principal Occupation and Business Experience During the Past Five Years	Other Directorships	Period of Service as Katy Director
-----	---	-----	-----	-----

Katy subsidiary

Executive Officers

Name	Age	Principal Occupation and Business Experience During the Past Five Years
-----	---	-----

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Roger G. Engle	54	2000 to Present: Chief Information Officer 1999 to present: Chairman, Contico International, LLC 1998 to present: Vice President of Katy 1996 to 1998: President of Woods Industries, Inc., a Katy subsidiary that manufactures and distributes electric corded products, supplies and electrical/electronic accessories, Waldom Electronics, Inc., a Katy subsidiary that distributed electrical and electronic goods which has been subsequently merged into GC/Waldom Electronics, Inc. and GC Thorsen, Inc., a Katy subsidiary that distributed hand tools which has subsequently changed its name to GC/Waldom Electronics, Inc. 1990 to 1996: President of Waldom Electronics, Inc. a Katy subsidiary that distributed electrical and electronic goods which has been subsequently merged into GC/Waldom Electronics, Inc.
Larry D. Hudson	53	1998 to present: Vice President, Operations of Katy 1997 to 1998: President of Hamilton Precision Metals, Inc., a Katy subsidiary that produces metal strip and foil products 1993 to 1997: President of Beehive, Inc., a former Katy subsidiary, a manufacturer of specialized meat and food separation equipment
Michael H. Kane	46	2000 to present: Vice President, Maintenance - Retail 1999 to present: President, Contico Consumer Products Division 1997 to 1999: Executive Vice President of Woods Industries, Inc., a Katy subsidiary that manufactures and distributes electric corded products, supplies and electrical/electronic accessories
Stephen P. Nicholson	48	1996 to present: Vice President, Finance and Chief Financial Officer of Katy 1996: Treasurer and Chief Financial Officer of Katy

55

Name	Age	Principal Occupation and Business Experience During the past Five Years
-----	---	-----

William J. Wagner	51	2000 to Present: Vice President, Maintenance-Commercial of Katy and President, Continental Manufacturing, a Katy subsidiary 1982 to 2000: President, Pinnacle Sales and Marketing, Inc., a manufacturers' representative agency.
-------------------	----	---

Wallace E. Carroll, Jr. and Amelia M. Carroll are husband and wife. Wallace E. Carroll, Jr. and Daniel B. Carroll are first cousins. Except where noted, no corporation or organization mentioned in the above table is a parent, subsidiary or other affiliate of Katy.

Officers holds office until their successors are chosen and qualify. Officers elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

PROPOSAL 5 - RATIFICATION OF THE APPOINTMENT OF ARTHUR ANDERSEN LLP AS THE INDEPENDENT AUDITORS OF KATY

The firm of Arthur Andersen LLP, independent accountants, audited Katy's financial statements for the year ended December 31, 2000. The Board of Directors has reappointed, and recommends to the stockholders the ratification of the appointment of, Arthur Andersen LLP as Katy's independent auditors for the year ending December 31, 2001. If you do not ratify the appointment, the Board of Directors may reconsider its recommendation.

A representative of Arthur Andersen LLP is expected to be available at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if he or she so desires.

AUDIT FEES

Arthur Andersen LLP has billed Katy aggregate fees of \$217,500 for professional services rendered for the audit of Katy's annual financial statements for the fiscal year 2000 and the review of the financial statements included in Katy's Forms 10-Q filed during fiscal year 2000. Katy expects to be billed an additional \$100,000 in connection with these services.

ALL OTHER FEES

Arthur Andersen LLP has billed Katy aggregate fees of \$80,000 for all other services rendered to it during fiscal year 2000. All of these fees related to audits of

56

employee benefit plans. The Audit Committee of the Board of Directors considered whether the provision of the services other than the audit services referred to above is compatible with maintaining the auditors' independence.

REQUIRED VOTE

The affirmative vote of a majority of the votes cast at the Annual Meeting is required to approve this Proposal 5.

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS REAPPOINTED, AND RECOMMENDS A VOTE "FOR" THE RATIFICATION OF ARTHUR ANDERSEN LLP AS KATY'S INDEPENDENT AUDITORS.

INFORMATION ABOUT KATY STOCK OWNERSHIP

OUTSTANDING SHARES

The shares of common stock are the only outstanding class of Katy voting securities. As of March 19, 2001, there were 8,394,058 shares of Katy common stock outstanding and 495,975 options to acquire shares of common stock exercisable within the next 60 days.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table and notes show, as of March 19, 2001, information on the beneficial ownership of those persons or entities (including certain members of the family of Wallace E. Carroll, former Chairman of Katy's board, since deceased (the "Carroll Family")), and related persons and entities, who are

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

known to Katy to be the beneficial owners of more than 5% of the shares of common stock. The notes below the table describe the nature of that beneficial ownership. Unless otherwise indicated, the nature of beneficial ownership is that of sole voting power and sole investment power. In calculating percentages for a given person, shares for which such person has the right to acquire beneficial ownership within 60 days (e.g. through exercising options) are deemed to be outstanding.

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
Wallace E. Carroll, Jr. and the WEC Jr. Trusts c/o CRL, Inc. 6300 S. Syracuse Way, Suite 300 Englewood, CO 80111	3,126,767	(1) (2)	35.2%

57

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
Amelia M. Carroll and the WEC Jr. c/o CRL, Inc. 6300 S. Syracuse Way, Suite 300 Englewood, CO 80111	3,152,767	(1) (3)	35.5%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue 11th Floor Santa Monica, CA 90401	590,800	(4)	6.6%
GAMCO Purchasers, Inc. One Corporate Center Rye, NY 10580-1434	1,243,200	(5)	14.0%
Gabelli Funds, LLC One Corporate Center Rye, NY 10580-1434	502,700	(6)	5.7%

(1) Wallace E. Carroll, Jr., Denis H. Carroll, Barry J. Carroll and Lelia Carroll are the four children of Wallace E. Carroll and Lelia H. Carroll. Wallace E. Carroll, Jr. is a Katy director. Daniel B. Carroll, who is also a Katy director, is the first cousin of each of the four children of Wallace E. Carroll and Lelia H. Carroll. Amelia M. Carroll is a Katy director and the spouse of Wallace E. Carroll, Jr. In February 1996, members of the Carroll Family reorganized their jointly held family assets. The reorganization resulted in, among other things, the individual reallocation of shares they formerly held jointly. The amounts shown above for Carroll Family members reflect the reorganization, and do not reflect multiple counting of shares (except for Wallace E. Carroll, Jr. and Amelia M. Carroll who are husband and wife).

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

(2) Wallace E. Carroll, Jr. directly holds 180,239 shares and options to acquire 12,000 shares. He is a trustee of trusts for his and his descendants' benefit (the "WEC Jr. Trusts") which collectively hold 805,215 shares. He and certain of the WEC Jr. Trusts own all the outstanding shares of CRL, Inc. which holds 2,073,436 shares. He is also a trustee of the Wallace Foundation which holds 32,910 shares. Wallace E. Carroll, Jr. also reports that he beneficially owns 8,729 shares and options to acquire 10,000 shares directly owned by his wife Amelia M. Carroll, and 4,238 shares held by a "rabbi trust" for him and his wife in connection with the Katy Industries, Inc. Directors' Deferred Compensation Plan.

58

(3) Amelia M. Carroll directly holds 8,729 shares and options to acquire 10,000 shares. She is a trustee of the WEC Jr. Trusts which collectively own 805,215 shares, and the Wallace Foundation which holds 32,910 shares. Wallace E. Carroll, Jr. and certain of the WEC Jr. Trusts own all the outstanding shares of CRL, Inc. which holds 2,073,436 shares. Amelia M. Carroll is also trustee of trusts for Lelia Carroll and her descendants' benefit holding 26,000 shares in the aggregate. Amelia M. Carroll also reports that she beneficially owns 180,239 shares and options to acquire 12,000 shares directly owned by her husband Wallace E. Carroll, Jr., and 4,238 shares held by a "rabbi trust" for her and her husband in connection with the Katy Industries, Inc. Directors' Deferred Compensation Plan.

(4) Information obtained from Schedule 13G dated February 2, 2001 filed by Dimensional Fund Advisors, Inc. for the calendar year 2000.

(5) Information obtained from Schedule 13D/A dated September 28, 2000 filed by Gabelli Asset Management, Inc. ("GAMI"). According to that Schedule 13D/A, GAMCO Purchasers, Inc. ("GAMCO") holds these shares as agent, and Mario Gabelli, Gabelli Group Capital Partners, Inc. ("Gabelli Partners") and GAMI are deemed to beneficially own these shares. Also according to that Schedule 13D/A, GAMCO has the sole power to vote (or direct the vote) and sole power to dispose (or to direct the disposition) of these shares except that (i) it does not have authority to vote 1,000 of the shares, and (ii) the power of Mario Gabelli, GAMI and Gabelli Partners is indirect with respect to these shares.

(6) Information obtained from Schedule 13D/A dated September 28, 2000 filed by GAMI. According to that Schedule 13D/A, Gabelli Funds, LLC ("Gabelli Funds") holds these shares as agent, and Mario Gabelli, Gabelli Partners and GAMI are deemed to beneficially own these shares. Also according to that Schedule 13D/A, Gabelli Funds has the sole power to vote (or direct the vote) and sole power to dispose (or to direct the disposition) of these shares, except that (i) Gabelli Funds has sole dispositive and voting power with respect to shares held by the Funds so long as the aggregate voting interest of all joint filers does not exceed 25% of their total voting interest in Katy and, in that event, each Fund's Proxy Voting Committee is to vote that Fund's shares, (ii) under special circumstances, each Fund's Proxy Voting Committee may take and exercise in its sole discretion the entire voting power with respect to the shares held by that Fund, and (iii) the power of Mario Gabelli, GAMI and Gabelli Partners is indirect with respect to these shares.

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows, as of March 19, 2001, the number of shares of common stock that directors and certain executive officers beneficially own, and that directors and executive officers as a group own. Unless otherwise indicated, the nature of

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

59

beneficial ownership is that of sole voting power and sole investment power. In calculating percentages, shares for which a person has the right to acquire beneficial ownership within 60 days (e.g. through exercising options) are deemed to be outstanding.

Name	Amount and Nature of Beneficial Ownership	Notes	Percent of Class
William F. Andrews	17,000	(1)	*
Robert M. Baratta	53,275	(4) (5)	*
Amelia M. Carroll	3,152,767	(1) (2)	35.4
Daniel B. Carroll	19,000	(1)	*
Wallace E. Carroll, Jr.	3,126,767	(1) (2)	35.1
Michael H. Kane	4,560	(4) (5)	*
Arthur R. Miller	95,480	(3)	*
John R. Prann, Jr.	190,023	(4) (5)	1.
Charles W. Sahlman	23,850	(1) (5)	*
Jacob Saliba	24,592	(1) (5)	*
Glenn W. Turcotte	84,920	(4) (5)	*
Roger G. Engle	23,082	(4) (5)	*
Larry D. Hudson	16,160	(4) (5)	*
Stephen P. Nicholson	40,314	(4) (5)	*
William J. Wagner	0	(4)	*
All directors and executive officers of Katy as a group (15 persons)	3,744,983	(1) (2) (3) (4) (5)	41.0
* Indicates 1% or less			

(1) Includes, for each individual, currently exercisable nonqualified stock options to acquire shares granted to each non-employee director under the Katy Industries, Inc. Non-employee Director Stock Option Plan:

William F. Andrews	12,000
Amelia M. Carroll	10,000
Daniel B. Carroll	12,000
Wallace E. Carroll, Jr.	12,000
Charles W. Sahlman	12,000
Jacob Saliba	12,000

(2) Includes shares deemed beneficially owned by Wallace E. Carroll, Jr. and Amelia M. Carroll in their capacity as trustees of certain trusts for the benefit of members of the Wallace E. Carroll, Jr. family. (See notes (2) and (3) under "Security Ownership of Certain Beneficial Owners.") Amounts shown for Amelia M. Carroll and Wallace E. Carroll, Jr., reflect multiple counting of shares where more than one of them is a trustee of a particular trust and is needed to report beneficial ownership of shares that these trusts hold.

(3) Arthur R. Miller holds 30,724 shares directly and options to acquire 47,000 shares exercisable within 60 days, and 17,756 shares held by a "rabbi trust" in connection with the Katy Industries, Inc. Supplemental Retirement and Deferral Plan. Arthur R. Miller is a trustee of trusts for the benefit of Denis H. Carroll and his descendants holding 360,620 shares in the aggregate.

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

60

He disclaims beneficial ownership of the shares that the trusts beneficially own. Effective March 19, 2001 he resigned from his position as a director of CRL, Inc. and as a trustee of trusts for the benefit of Wallace E. Carroll, Jr. and his descendants.

(4) Includes, for each individual, options to acquire the following number of shares within 60 days:

John R. Prann, Jr.	98,500
Glenn W. Turcotte	53,000
Robert M. Baratta	34,000
Roger G. Engle	17,400
Larry D. Hudson	12,125
Michael H. Kane	3,875
Stephen P. Nicholson	13,500
William J. Wagner	0

(5) Includes shares beneficially owned by each individual, which are held by a "rabbi trust" in connection with either the Katy Industries, Inc. Supplemental Retirement and Deferral Plan or the Directors' Deferred Compensation Plan:

Robert M. Baratta	3,927
Michael H. Kane	85
John R. Prann	31,589
Charles W. Sahlman	8,350
Jacob Saliba	7,376
Glenn A. Turcotte	8,420
Roger G. Engle	1,681
Larry D. Hudson	995
Stephen P. Nicholson	8,594

CHANGE OF CONTROL

The transactions contemplated by the Purchase Agreement may result in a change of control of Katy if Purchaser were later to exercise its right to convert the convertible preferred stock to be obtained in the Preferred Stock Purchase, because the shares of common stock issuable upon conversion of all of the convertible preferred stock, together with the shares of common stock bought by Purchaser in the Tender Offer, would represent a majority of the outstanding common stock on a fully diluted basis (exclusive of director and employee stock options). Moreover, Purchaser's designees, if elected, will represent a majority of the Board of Directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16 of the Exchange Act, Katy's directors, executive officers and persons beneficially owning more than 10% of the shares must file reports of ownership and changes in ownership with the SEC, and copies of these reports with the New York Stock Exchange and Katy. One such report, which was not filed by its due date, was filed in April 2001. Lester I. Miller, a Katy director during part of 2000, reported purchases of 30 shares of Katy common stock in 2000 as a result of reinvested dividends received from shares held in the Directors' Deferred Compensation Plan. Besides this exception, and based solely on reviewing copies of the Section 16 reports, Katy believes that, during its fiscal year ended December 31, 2000, its directors, executive officers and greater than 10% beneficial owners complied with their Section 16 filing requirements.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table shows, for the years ending December 31, 2000, 1999 and 1998, the cash compensation paid by Katy and its subsidiaries (and certain other compensation paid or accrued for those years) to Katy's Chief Executive Officer ("CEO"), the four other most highly compensated executive officers and one other executive officer whose employment terminated during 2000 (the "Named Executive Officers").

Name and Principal Position	Year	Salary	Bonus (3)	Other Annual Compensation (4)	Restricted Stock Award (5)	Se Un Op
John R. Prann, Jr. Former President, Chief Executive Officer, and Chief Operating Officer(1)	2000 1999 1998	\$ 525,000 525,000 450,000	\$ - - 337,500	\$ - - -	\$ - 162,000 -	
Arthur R. Miller Executive Vice President, Corporate Development, Secretary and General Counsel	2000 1999 1998	\$ 360,000 360,000 325,000	\$ - - 195,000	\$ - - -	\$ - 108,000 -	
Glenn W. Turcotte Senior Vice President (2)	2000 1999 1998	\$ 330,000 360,000 325,000	\$ - - 195,000	\$ - - -	\$ - 108,000 -	
Roger G. Engle Chief Information Officer and Vice President	2000 1999 1998	\$ 285,000 285,000 245,000	\$ - - 110,250	\$ 130,664 - 67,428	\$ - 54,000 -	
Michael H. Kane Vice President, Maintenance-Retail	2000 1999 1998	\$ 250,000 230,000 183,462	\$ - - 28,731	\$ - - -	\$ - 54,000 -	
Stephen P. Nicholson Vice President, Financial Officer Finance and Chief	2000 1999 1999	\$ 230,000 230,000 200,000	\$ - - 105,000	\$ - - -	\$ - 54,000 -	

(1) Mr. Prann resigned as President and Chief Executive Officer of Katy effective February 19, 2001. Effective February 19, 2001, Robert M. Baratta

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

became President and Chief Executive Officer of Katy.

(2) Mr. Turcotte retired as Chief Operating Officer and Executive Vice President on June 30, 2000 and remains an employee to assist Katy in an advisory capacity.

(3) Katy paid bonuses for 1998 to the Named Executive Officers (except Michael H. Kane who was paid entirely in cash), 75% in cash and 25% in shares of Katy common stock. The share portion of the bonuses was based on the average stock price on February 19, 1999 (\$17.1875). Under this arrangement, the following shares were granted for 1998:

John R. Prann, Jr.	4,909 shares
Arthur R. Miller	2,836 shares
Glenn W. Turcotte	2,836 shares
Roger G. Engle	1,603 shares
Stephen P. Nicholson	1,527 shares.

(4) Katy reimbursed Roger G. Engle for the expenses incurred during 2000 in connection with his move to Chicago, Illinois and, during 1998, in connection with his move to Carmel, Indiana.

(5) The number and value of the Named Executive Officers' aggregated restricted stock holdings at the end of the fiscal year, priced at Katy's closing stock price at December 31, 2000, were:

John Prann	7,500 non-vested shares valued at \$45,000
Arthur Miller	5,000 non-vested shares valued at \$30,000
Glenn Turcotte	5,000 non-vested shares valued at \$30,000
Roger Engle	2,500 non-vested shares valued at \$15,000
Michael H. Kane	375 non-vested shares valued at \$2,250
Stephen Nicholson	2,500 non-vested shares valued at \$15,000

The values of awards of restricted stock granted during 1999 were calculated at Katy's closing stock price on the dates of grant as set forth in the following table:

Name	Number of Shares Granted	Katy's Stock Price on the Grant Date	Grant D
John R. Prann, Jr.	6,000	\$17.125	01/08/
	6,000	9.875	12/10/
Arthur R. Miller	4,000	\$17.125	01/08/
	4,000	9.875	12/10/
Glenn W. Turcotte	4,000	\$17.125	01/08/
	4,000	9.875	12/10/
Roger G. Engle	2,000	\$17.125	01/08/
	2,000	9.875	12/10/
Michael H. Kane	300	\$17.125	01/08/
	300	9.875	12/10/
Stephen P. Nicholson	2,000	\$17.125	01/08/
	2,000	9.875	12/10/

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Awards of restricted stock that were granted on January 8, 1999 generally vest in 25% increments on January 8 of 1999, 2000, 2001 and 2002. Awards of restricted stock that were granted on December 10, 1999 generally vest in 25% increments on January 3 in

each of 2000, 2001, 2002 and 2003. Dividends will be paid on the restricted stock granted during 1999.

(6) The 2000, 1999 and 1998 figures include employer contributions to the Named Executive Officers' 401(k) retirement accounts, and non-cash compensation consisting of personal use of corporate automobiles and group term life insurance. The 1999 and 1998 figures also include the dollar value set aside for each Named Executive Officer under the Katy Industries, Inc. Supplemental Retirement and Deferred Plan.

The 2000 figures include the following amounts:

	Auto Allowance	Group Term Life Insurance	401(k) Match
	-----	-----	-----
John R. Prann, Jr.	\$ 10,091	\$ 2,518	\$ 2,625
Arthur R. Miller	4,074	1,725	2,625
Glenn W. Turcotte	2,961	4,335	2,446
Roger G. Engle	5,225	532	-
Michael H. Kane	3,608	60	700
Stephen P. Nicholson	5,561	704	2,625

OPTION GRANT TABLE

The following table shows information on grants of stock options during 2000 to the Named Executive Officers.

Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees During 2000	Exercise Or Base Price	Expiration Date
-----	-----	-----	-----	-----
John R. Prann	0	0.0%		
Arthur R. Miller	0	0.0%		

Number of Securities Underlying	% of Total Options Granted to	Exercise
---------------------------------	-------------------------------	----------

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Name	Options Granted(1)	Employees During 2000	Or Base Price	Expiration Date	Ann Pri
Glenn W. Turcotte	0	0.0%			
Roger G. Engle	30,000	20.3%	10.25	09/12/10	40,
Michael H. Kane	30,000	20.3%	10.25	09/12/10	40,
Stephen P. Nicholson	15,000	10.1%	10.25	09/12/10	20,

(1) Options that were granted generally vest 25% per year beginning on the first anniversary of the grant date. The options in this table expire ten years after grant.

(2) These columns show the hypothetical value of the options granted at the end of the option term if the price of the Katy common stock were to appreciate annually by 5% and 10%, respectively, based on the grant date value of the Katy common stock.

AGGREGATED OPTION/SAR EXERCISES AND FISCAL YEAR-END
OPTION/SAR VALUE TABLE

The following table shows the value of in-the-money options and stock appreciation rights ("SARs") at December 31, 2000. No options or SARs were exercised in 2000.

Name	Aggregate Fiscal Year-End Option/SAR Value			
	Number of Securities Underlying Unexercised Options/SARs at Year End		Value of In-the-Mo Options/SARs at Year	
	Exercisable	Unexercisable	Exercisable	Unexe
John R. Prann, Jr.	94,000	188,022	\$ 0	\$
Arthur R. Miller	44,500	95,511	0	
Glenn W. Turcotte	50,500	95,511	0	
Roger G. Engle	16,150	38,050	0	
Michael H. Kane	3,500	32,250	0	
Stephen P. Nicholson	12,250	45,504	0	

TERMINATION OF EMPLOYMENT, CHANGE OF CONTROL AND OTHER ARRANGEMENTS

Compensation and Benefits Assurance Program

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

On January 17, 1996, the Board of Directors adopted and approved a compensation and benefits assurance program (the "Program") for Katy's key officers to ensure that Katy retains personnel having particular experience with and knowledge of Katy's business and affairs. As of December 31, 2000, each of the Named Executive Officers, except Glenn W. Turcotte, were participants in this program. The program provides for certain severance benefits following: (a) an involuntary termination without "cause" (as defined under the Program) in the two years after a "Change in Control" (as defined below) of Katy; or (b) a deemed constructive termination in the two years after a "Change in Control" of Katy. Katy believes that the transactions contemplated by the Purchase Agreement will not constitute a "Change of Control" under the Program unless and until the Purchaser exercises its right to convert the convertible preferred stock obtained in the Preferred Stock Purchase, or the occurrence of certain other events which include the acquisition by the Purchaser of additional shares of Katy common stock.

Severance benefits include: (i) either three years of base salary for John R. Prann Jr. and Arthur R. Miller or two years of base salary for Roger G. Engle, Michael H. Kane, and Stephen P. Nicholson (increased to two and two-thirds years' base salary for Mr. Nicholson under certain circumstances); (ii) a lump sum payment of annual bonuses; (iii) continuation of health care benefits; (iv) matching contributions under Katy's 401(k) savings plan (three years for Messrs. Prann and Miller; two years for Messrs. Engle, Kane, and Nicholson (increased to two and two-thirds years for Mr. Nicholson under certain circumstances)); (v) advancement of legal fees incurred in enforcing rights under the Program; (vi) out-placement assistance; and (vii) a "gross-up" payment for any excise tax payments due by the officer as a result of receiving these severance benefits. In the event of a "Change of Control," Katy is required to establish and fund a "rabbi trust" in an amount equal to the sum of the above severance benefits (not including health care benefit costs and outplacement assistance).

A "Change in Control" is generally defined as: (i) any person (except persons in control on the effective date) becoming the beneficial owner of Katy securities with at least 30% of the combined voting power of Katy's then outstanding shares; (ii) during any period of two consecutive years, individuals who, at the beginning of that period constitute the board (including any new director, whose election by Katy's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office at the beginning of the period or whose election or nomination for election was so approved), ceasing to constitute a majority of the board; or (iii) Katy's stockholders approving a plan of liquidation, an agreement to dispose of substantially all Katy's assets, or a merger, consolidation, or reorganization of Katy, other than a merger, consolidation, or reorganization that would result in the voting securities of Katy outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of Katy (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.

66

In connection with the Preferred Stock Purchase and Tender Offer, Katy currently intends to enter into severance agreements with each of Arthur R. Miller, Roger G. Engle, Michael H. Kane and Stephen P. Nicholson. These severance agreements will generally provide for the substantially similar severance benefits as currently provided under the Program in the event of such individual's termination of employment except for the benefits and protections particularly suited to a "Change of Control," which include the funding of the severance benefits, the "gross up" payment for any excise taxes and the specified amount of legal fees. These severance agreements will supersede the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

rights of such individuals under the Program.

Other Arrangements

On December 15, 2000, as part of Katy's efforts to retain the services of certain executives following a "Change of Control" (as defined under the Katy Industries, Inc. 1997 Long Term Incentive Plan), Katy agreed to pay Roger G. Engle and Michael H. Kane a bonus in connection with a "Change of Control" which occurs on or prior to June 30, 2002 in the event that the pre-tax proceeds received by such individual in connection with such "Change of Control" from the exercise of all "in the money" options held by such individual at the time of the "Change of Control" and the disposition of shares of common stock issued pursuant to such exercise (or payment of the net value thereof in lieu of such exercise and disposition) does not equal or exceed seventy-five percent (75%) of the individual's then current base salary. The bonus would be equal to the difference between proceeds received by such individual and seventy-five (75%) percent of the individual's base salary. Purchaser has indicated that it may give these individuals the choice either to receive the payments specified above in exchange for the forfeiture of such individual's options, or to retain such options subject to the terms and conditions of the Katy stock incentive plan under which such options were granted.

In connection with his resignation as President and Chief Executive Officer as of February 19, 2001, Katy entered into a separation agreement with John R. Prann, Jr. under which he will receive a payment of \$525,000 and, if Katy enters into a definitive agreement within 180 days of March 2, 2001 that would result in a "Change of Control" of Katy (as defined in the separation agreement) and such "Change of Control" occurs within 270 days of March 2, 2001, Katy will pay Mr. Prann an additional \$1,050,000. In addition, Katy agreed to pay Mr. Prann's account balance (excluding amounts deferred under Katy's Prior Service Retirement Plan (Frozen Plan)) under the Supplemental Plan (as described above), calculated based on the price of Katy's common stock at the close of business on February 16, 2001, in a single lump sum in cash on January 2, 2002. Also, subject to Mr. Prann cooperating with and assisting Katy in the transition of his duties and responsibilities through April 15, 2001, the transfer and forfeiture restrictions on the restricted stock held by Mr. Prann shall lapse on April 16, 2001. Notwithstanding Katy's belief that the transactions contemplated by the Purchase Agreement will not constitute a "Change of Control" under the Separation Agreement absent the occurrence of certain events (as described under the Program), Purchaser has indicated that it may seek additional concessions from Mr. Prann for which it would be willing to pay Mr. Prann the amount under the separation agreement which is contingent upon the signing and consummation of a "Change of Control."

In connection with his resignation as Chief Operating Officer and Executive Vice President as of June 30, 2000, Katy entered into an executive retirement agreement with Glenn W. Turcotte under which he will provide certain advisory services to Katy as a Senior Vice President and receive, in accordance with Katy's ordinary payroll policies, \$300,000 for the period from July 1, 2000 through December 31, 2000, \$100,000 per year for the period from January 1, 2001 through December 31, 2003 and \$50,000 per year for the period from January 1, 2004 through December 31, 2005. In addition, Mr. Turcotte agreed to be bound by customary confidentiality, non-competition and works for hire provisions. Mr. Turcotte also relinquished his rights under the Program. The executive retirement agreement generally expires on December 31, 2005.

DIRECTORS' COMPENSATION

For 2000, directors who were not employed by Katy or its subsidiaries received: (i) an annual retainer of \$9,000 (\$15,000 for the Chairman of the Board); (ii) options to acquire 2,000 shares (see below); (iii) a stock grant of 500 shares for service on the Board of Directors; and (iv) up to \$2,000 for

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

attending each meeting of the Board or a Board committee.

67

For 2001, it is expected that directors will receive the same compensation. Katy does not pay separate compensation to directors who are officers.

Under the Katy Industries, Inc. Non-Employee Director Stock Option Plan (the "Directors' Stock Option Plan"), each non-employee director receives on the date immediately following the annual meeting an annual grant of options to acquire 2,000 shares of Katy common stock. The exercise price is the fair market value on the date of grant. The director may exercise these options at any time during the ten years from the date of grant.

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

COMPENSATION COMMITTEE'S REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the "Compensation Committee") presents the following executive compensation report for fiscal 2000:

The Compensation Committee consists of Charles W. Sahlman (Chairman), Jacob Saliba and Daniel B. Carroll. It makes decisions on executive officer compensation and reports its decisions to the board. It also seeks the board's approval on the CEO's compensation. The following summarizes the compensation practice and philosophy that was in effect at Katy for the fiscal year ended December 31, 2000. Modifications to such philosophy have and may continue to be made.

Compensation Philosophy

Katy's compensation program aims to align executive officers' economic interests with those of stockholders (including Katy's financial objectives and market performance). The Compensation Committee seeks to adjust compensation levels (through competitive base salaries and bonus payments) based on individual and Katy performance. It reviews the executive compensation program annually in view of Katy's annual strategic and financial objectives and performance.

Compensation Program Components

Annual compensation for Katy's CEO and executive officers (including the Named Executive Officers) consists of two cash compensation components: base salary and annual cash bonuses. A third component, stock options, is used for executive retention, to attract new key people, and to align the long-term interests of eligible executives with those of stockholders.

68

Salary and bonus levels reflect job responsibility, seniority, Compensation

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Committee judgments of individual effort and performance, and Katy's financial and market performance (in light of the competitive environment in which Katy operates). Annual cash compensation is also influenced by comparable companies' compensation practices so that Katy remains reasonably competitive in the market. While competitive pay practices are important, the Compensation Committee believes that the most important considerations are individual merit and Katy's financial and market performance. In considering Katy's financial and market performance, the Compensation Committee reviews, among other things, net income, cash flow, working capital and revenues and share price performance relative to comparable companies and historical performance.

The Annual Bonus Plan, effective as of January 1, 1995, compensates employees based on target bonus opportunities established by the Compensation Committee stated as a percentage of annual base salary for recommended key employees each year (including the CEO and the Named Executive Officers). An employee achieves the target bonus opportunity if [he or she/his or her division meets] 100% of pre-established performance goals. He or she can earn a higher or lower bonus if performance exceeds or falls short of targeted levels. The performance goals for 2000 were based on two financial measures for each division and for corporate: operating income and working capital management. For 2000, the performance goals set by the Compensation Committee were not satisfied and, therefore, no bonuses were earned.

The Supplemental Retirement and Deferral Plan (the "Supplemental Deferral Plan"), among other things, allows participants to voluntarily defer up to 100% of their annual bonus and up to 50% of their base salary until retirement or termination of his or her employment. The Supplemental Deferral Plan allows Katy to make a profit sharing allocation to participants' accounts of, in aggregate, 2% of adjusted pre-tax income, as determined by the Compensation Committee. For 2000, Katy did not make an allocation under the Supplemental Deferral Plan. Katy invests voluntary deferrals and profit sharing allocations at the employee's election in several investment alternatives offered by Katy.

The third compensation component is a stock option program. Under Katy's stock option program, the board is allowed to provide compensation in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance units or shares, and other incentive awards including cash bonuses, contingent on Katy's share price reaching certain goals specified under the stock option program. The Compensation Committee believes that the stock option program optimizes Katy's growth and profitability through incentives to employees which are consistent with Katy's goals and which link employees' personal interests to those of the stockholders. The stock option program is also intended to give Katy flexibility to attract, motivate, and retain the services of employees and other individuals who contribute to its success. For 2000, no stock options were granted.

69

Chief Executive Officer Compensation

John R. Prann, Jr. became President in April 1993 and CEO in December 1993. Mr. Prann's salary for 2000 was based upon his experience and qualifications, responsibilities, individual effort and performance and Katy's performance. For 2000, Mr. Prann did not receive any additional payments, awards or grants, including those based on the satisfaction of performance goals.

Summary

The Compensation Committee believes that the total compensation program for executive officers is appropriately related to individual performance and Katy's performance (including Katy's financial results and stockholder value). The

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Compensation Committee monitors the executive compensation of comparable companies and believes that Katy's compensation program is competitive and provides appropriate incentives for Katy's executive officers to work towards continued improvement in Katy's overall performance.

Compensation Committee of the Board of Directors

Charles W. Sahlman, Chairman
Jacob Saliba
Daniel B. Carroll

STOCK PRICE PERFORMANCE GRAPH

The graph below compares the yearly percentage change in the cumulative total stockholder return on the shares of Katy common stock with the cumulative total return of the Russell 2000 and the cumulative total return of the S&P Manufacturing Diversified for the fiscal years ending December 31, 1995 through 2000. The graph below assumes \$100 invested, including reinvestment of dividends, on December 31, 1995.

70

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN* AMONG KATY INDUSTRIES, INC., THE RUSSELL 2000 INDEX AND THE S & P MANUFACTURING (DIVERSIFIED) INDEX

[GRAPH APPEARS HERE]

Comparison of Five Year Cumulative Total Return

	Cumulative Total Return				
	12/95	12/96	12/97	12/98	12/99
Katy Industries, Inc.	100.00	160.24	229.26	200.98	101.93
Russell 2000	100.00	116.49	142.55	138.92	168.45
S&P Manufacturing (Diversified)	100.00	137.81	164.11	190.20	233.82

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee's members are Charles W. Sahlman, Jacob Saliba and Daniel B. Carroll.

During 2000, Charles W. Sahlman was President of Sahlman Holding Company, Inc. (43% owned by Katy and 57% owned by Sahlman Seafoods, Inc., a corporation owned by Mr. Sahlman, his family members and various employees of Sahlman Seafoods, Inc.) Mr. Sahlman is also a former Executive Vice President of Katy. Jacob Saliba was Katy's CEO from 1988 to 1993.

71

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2000, Charles W. Sahlman served as President of Sahlman Holding

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Company, Inc. (43% owned by Katy and 57% owned by Sahlman Seafoods, Inc.). Mr. Sahlman is also a former Executive Vice President of Katy. William F. Andrews is a principal of Kohlberg.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors met four times during 2000. Each director then in office attended at least 75% of those meetings and of the meetings of the board committees of which he or she is a member.

Katy's By-laws provide for an Executive Committee to which the Board of Directors has assigned all powers delegable by law. 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. The Executive Committee consists of Wallace E. Carroll, Jr. (Chairman), Arthur R. Miller, Robert M. Baratta, Charles W. Sahlman and Jacob Saliba. William H. Murphy was a member of the Executive Committee prior to his death in 2000 and John R. Prann, Jr. was a member of the Executive Committee prior to his resignation as Chief Executive Officer and director in February 2001.

The Board of Directors also has an Audit Committee and a Compensation Committee. The Audit Committee consists of Daniel B. Carroll (Chairman), Wallace E. Carroll, Jr. and Jacob Saliba, each of whom is independent (as defined by Sections 303.01(B)(2)(a) and (3) of the New York Stock Exchange's listing standards). The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached as Annex E. Prior to his death in 2000, William H. Murphy was Chairman of the Audit Committee. This Committee met one time during 2000, met informally throughout the year, and held numerous telephone conferences during 2000. The Audit Committee reviews the results of the annual audit with Katy's independent auditors, reviews the scope and adequacy of Katy's internal auditing procedures and its system of internal controls, reviews Katy's financial statements and related financial issues with management and the independent auditors, and reports its findings and recommendations to the Board of Directors.

The Compensation Committee consists of Charles W. Sahlman (Chairman), Jacob Saliba and Daniel B. Carroll. This Committee, which reviews current and deferred compensation for Katy officers and for some officers and key employees of its subsidiaries, held one meeting, met informally throughout the year, and held numerous telephone conferences during 2000. It makes decisions on executive officer compensation and reports its decisions to the board. It also seeks the board's approval on the CEO's compensation.

The entire Board of Directors considers and selects nominees for directors. It does not have a separate nominating committee. On January 17, 1996, the board adopted

72

an advance notice bylaw provision requiring stockholder nominations of directors to be received by Katy not less than 50 days nor more than 90 days before the annual meeting.

AUDIT COMMITTEE REPORT

The Audit Committee has reviewed and discussed the audited financial statements for the year ending 2000 with management, and has discussed with the independent auditors the matters required to be discussed by SAS 61. The Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1,

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

and has discussed with the independent accountants the independent accountants' independence. Based on the review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Katy's Annual Report on Form 10-K for 2000 filed with the SEC.

Audit Committee of the Board of Directors:

Daniel B. Carroll (Chairman)
Wallace E. Carroll, Jr.
Jacob Saliba

PROPOSALS OF STOCKHOLDERS FOR 2002 ANNUAL MEETING

In order to be considered for inclusion in Katy's proxy materials for the 2002 annual meeting of stockholders, any stockholder proposal must be addressed to Katy Industries, Inc., 6300 S. Syracuse Way, Suite 300, Englewood, Colorado 80111, Attention: Secretary, and must be received no later than

Katy's by-laws set forth additional requirements and procedures regarding the submission by stockholders of matters for consideration at an annual meeting of stockholders. A stockholder proposal or nomination intended to be brought before the 2002 annual meeting must be received by the Secretary in writing not less than 50 days nor more than 90 days prior to the 2002 annual meeting. A nomination or proposal that does not comply with such requirements and procedures will be disregarded.

FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the consummation of the equity transaction contemplated by the Purchase Agreement with Purchaser. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "anticipate," "expect," "estimate," "intent" and similar expressions identify forward-looking statements.

73

Forward-looking statements necessarily reflect numerous assumptions and involve risks and uncertainties, and actual results could differ materially from those anticipated in the forward-looking statements. There can be no assurance that the sale of Hamilton or the new financing with Bankers Trust Company will be consummated, or that the proposed transaction with Purchaser will be completed. Factors that would cause actual results to differ materially from Katy's current expectations include but are not limited to those factors set forth in Katy's Annual Report on Form 10-K.

WHERE TO GET ADDITIONAL INFORMATION

Additional information about the Tender Offer is set forth in a Tender Offer Statement and a Solicitation/Recommendation Statement on Schedule 14D-9. The Tender Offer Statement and Solicitation/Recommendation Statement is being distributed concurrently with the distribution of this Proxy Statement. Every person who is a stockholder of Katy when the Tender Offer Statement and Solicitation/Recommendation Statement is distributed will receive a copy of the Tender Offer Statement and Solicitation/Recommendation Statement. The Tender Offer Statement is part of a statement on Schedule TO which will be filed by Purchaser upon commencement of the Tender Offer. The Solicitation/Recommendation Statement on Schedule 14D-9 will be filed by Katy simultaneously with the filing

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

by Purchaser of the Tender Offer Statement. You can obtain copies of the statement on Schedule TO and of the statement on Schedule 14D-9 as described below.

Katy files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information Katy files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC filings of Katy are also available to the public through the SEC's website at "<http://www.sec.gov>."

This Proxy Statement incorporates documents by reference which are not presented in the Proxy Statement and which are not delivered with the Proxy Statement. The information incorporated by reference is considered to be a part of this Proxy Statement, and later information filed with the SEC will update and supersede this information. If this Proxy Statement was delivered to you by Katy, Katy will provide you without charge a copy of any document incorporated by reference that you request (excluding exhibits, unless they are specifically incorporated by reference). Written requests for such copies should be sent to Secretary of Katy at its executive offices, 6300 S. Syracuse Way, Suite 300, Englewood, Colorado 80111. Telephone requests for copies can be made to (303) 290-9300.

74

ANNUAL REPORT ON FORM 10-K

INCLUDED IN THIS MAILING IS A COPY OF KATY'S 2000 ANNUAL REPORT TO STOCKHOLDERS, WHICH INCLUDES KATY'S 2000 ANNUAL REPORT ON FORM 10-K. KATY WILL FURNISH WITHOUT CHARGE ADDITIONAL COPIES (WITHOUT EXHIBITS) OF ITS ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000, INCLUDING THE FINANCIAL STATEMENTS AND THE SCHEDULES THERETO, UPON THE WRITTEN REQUEST OF ANY STOCKHOLDER AS OF THE RECORD DATE. KATY WILL PROVIDE COPIES OF THE EXHIBITS TO THE ANNUAL REPORT UPON PAYMENT OF A REASONABLE FEE THAT WILL NOT EXCEED KATY'S REASONABLE EXPENSES INCURRED IN CONNECTION THEREWITH. REQUESTS FOR SUCH MATERIALS SHOULD BE DIRECTED TO KATY INDUSTRIES, INC., 6300 S. SYRACUSE WAY, SUITE 300, ENGLEWOOD, COLORADO 80111, ATTENTION: SECRETARY.

OTHER MATTERS

As of the date of this proxy statement, the Board of Directors does not know of any matters to be presented to the meeting other than the proposals noted in the Proxy Statement. However, if other matters come before the meeting, it is the intention of the persons named on the accompanying proxy to vote on such matters in accordance with their best judgment. On January 17, 1996, Katy's Board of Directors adopted an advance notice bylaw provision requiring that stockholder proposals to be made at any annual meeting be received by Katy not less than 50 days nor more than 90 days prior to the annual meeting. No such stockholder proposals were received for the 2001 Annual Meeting.

INCORPORATION OF DOCUMENTS BY REFERENCE

Katy's Annual Report on Form 10-K for the year ended December 31, 2000 is being sent to stockholders along with this Proxy Statement and is incorporated herein by reference.

All documents filed by Katy pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Proxy Statement and prior to the Annual Meeting shall be deemed to be incorporated by reference into this Proxy Statement and to be a part hereof from

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

the date of filing of such documents.

Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Proxy Statement, or in any other subsequent filed document which is also incorporated herein by reference, modified or supersedes such statement. Any such statement so modified

75

or superseded shall not be deemed to constitute a part of this Proxy Statement except as so modified or superseded.

By Order of the Board of
Directors KATY INDUSTRIES, INC.

Arthur R. Miller
Secretary

April __, 2001

76

ANNEX A

[BEAR STEARNS LETTERHEAD]

Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167
Tel 212.272.2000
www.bearstearns.com

March 29, 2001

The Board of Directors
Englewood, CO 80111-6723

Ladies and Gentlemen:

We understand that Katy Industries, Inc. ("Katy") and KKTU Holding Company, L.L.C., an affiliate of Kohlberg Investors IV, L.P. ("Purchaser") will enter into a Preferred Stock Purchase and Recapitalization Agreement (the "Recapitalization Agreement") pursuant to which Purchaser will (i) commence a cash tender offer to purchase up to 2,500,000 outstanding shares of common stock of Katy (the "Common Stock") at a price of \$8.00 per share (the "Tender Offer") and (ii) purchase from Katy 400,000 shares (the "Preferred Stock Purchase") of newly issued preferred stock (the "Convertible Preferred Stock") at \$100 per share. We also understand that, pursuant to the Recapitalization Agreement, the terms of the Convertible Preferred Stock as set forth in the term sheet relating to the Convertible Preferred Stock (the "Preferred Term Sheet") would provide that (i) each share of the Convertible Preferred Stock would be convertible into Common Stock at a ratio of twelve and one-half shares of Common Stock per share of Convertible Preferred Stock (equivalent to \$8.00 per share of Common Stock), subject to certain adjustments, (ii) shares of the Convertible Preferred Stock would not be entitled to receive any dividends, and (iii) shares of the Convertible Preferred Stock would be non-voting, subject to certain exceptions. We further understand that certain holders of Common Stock (the "Participating Shareholders") will enter into a Stock Voting and Tender Agreement with the

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Purchaser (the "Voting Agreement") pursuant to which the Participating Shareholders will agree to vote certain of their shares of Common Stock with respect to certain matters relating to the Tender Offer and the Preferred Stock Purchase and other matters and to tender certain of their shares of Common Stock in the Tender Offer.

We understand that, immediately upon the consummation of the transactions contemplated by the Tender Offer and the Preferred Stock Purchase, Purchaser and its affiliates will hold approximately 29.8% of the outstanding Common Stock and at least a majority of Katy's common equity on a diluted basis, assuming conversion of the Convertible Preferred Stock. We also note certain governance arrangements contemplated by the Recapitalization Agreement, including that, upon the consummation of the transactions contemplated by the Tender Offer and the Preferred Stock Purchase, designees of Purchaser will represent a majority of the Board of Directors of Katy.

In addition, we understand that, in connection with the Tender Offer and the Preferred Stock Purchase, Purchaser will enter into senior secured credit facilities with a syndicate of lenders pursuant to the commitment letter from Bankers Trust Company to Purchaser dated March 27, 2001 (the "Commitment Letter") and that the Commitment Letter will provide that, subject to certain conditions, Katy would borrow up to \$150.0 million under these credit facilities (consisting of a term loan of up to \$40.0 million and a revolving loan of up to \$110.0 million) on interest rates and other terms and conditions set forth in the Commitment Letter (collectively, the "Refinancing"). We understand that, upon consummation of the Tender Offer and the Preferred Stock Purchase and the Refinancing, substantially all of the outstanding existing indebtedness of Katy would be repaid in full and the only material outstanding indebtedness of Katy immediately thereafter would be the indebtedness contemplated by the Commitment Letter and certain capital leases of Katy.

You have provided us with copies of the Recapitalization Agreement (including the Preferred Term Sheet), the Voting Agreement and the Commitment Letter, and advised us that each of them is in substantially final form.

You have asked us to render our opinion as to whether the Tender Offer and the Preferred Stock Purchase, taken as a whole, are fair, from a financial point of view, to the shareholders of Katy.

In the course of performing our review and analyses for rendering this opinion, we have:

- o reviewed a draft of the Recapitalization Agreement dated March 28, 2001 (including the Preferred Term Sheet);
- o reviewed a draft of the Voting Agreement dated March 28, 2001;
- o reviewed a commitment letter from Kohlberg Investors IV, L.P. to Purchaser dated March 27, 2001, relating to the Tender Offer and the Preferred Stock Purchase;
- o reviewed the Commitment Letter;
- o reviewed Katy's Annual Reports to Shareholders and Annual Reports on Form 10-K for the years ended December 31, 1998 and 1999, its Quarterly Report on Form 10-Q for the periods ended March 31, 2000, June 30, 2000 and September 30, 2000, its preliminary results for the year ended December 31, 2000, its Proxy Statement on Schedule 14A dated March 31, 2000, its Report on Form 8-K dated January 15, 1999 and its Report on Form 8-K/A dated March 22, 1999;
- o reviewed the Amended and Restated Credit Agreement dated as of December 11,

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

1998, among Katy, Bank of America National Trust and Savings Association, as Administrative Agent and Issuing Bank, La Salle National Bank, as Managing Agent, and the other financial institutions party thereto;

- o reviewed certain operating and financial information, including projections for the seven years ended December 31, 2007, provided to us by management relating to Katy's business and prospects;
- o met with certain members of Katy's senior management to discuss Katy's business, operations, historical and projected financial results and future prospects;
- o reviewed the historical prices, trading multiples and trading volumes of the common shares of Katy;
- o reviewed publicly available financial data, stock market performance data and trading multiples of companies which we deemed generally comparable to Katy;
- o reviewed the terms of selected precedent merger and acquisition transactions of, and investment transactions involving, companies which we deemed generally comparable to Katy or situations which we deemed generally comparable to the Tender Offer and the Preferred Stock Purchase, taken as a whole;
- o performed discounted cash flow analyses based on the projections for Katy furnished to us by the management of Katy;
- o reviewed the pro forma financial results, financial condition and capitalization of Katy giving effect to the Tender Offer and the Preferred Stock Purchase, taken as a whole, and the Refinancing; and
- o conducted such other studies, analyses, inquiries and investigations as we deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information, including without limitation the projections, provided to us by Katy. With respect to Katy's projected financial results, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the senior management of Katy as to the expected future performance of Katy. We have not assumed any responsibility for the independent verification of any such information or of the projections provided to us, and we have further relied upon the assurances of the senior management of Katy that they are unaware of any facts that would make the information or projections provided to us incomplete or misleading.

In arriving at our opinion, we have taken into account, with your consent, the risks inherent in Katy's current business plans, including the view of the senior management of Katy that in the current capital markets environment there exists a risk that Katy would be unable in the future to obtain continued waivers of the defaults under its current credit facility and that Katy would be unable to obtain, on reasonable terms, financing necessary to replace its current credit facility. We have also considered that, according to the senior management of Katy, (i) no other potential investor or acquiror has made any investment or acquisition proposal to Katy since November 6, 2000 (the date of the public announcement by Katy that it was exploring its strategic alternatives, including the possible sale of Katy, and that it was in discussions with a potential purchaser relating to a possible purchase of Katy) or since March 2, 2001 (the date of the public announcement by Katy that it was engaged in discussions with a potential purchaser of a substantial equity

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

position in Katy) and (ii) the prospects for obtaining access to additional financing in the public or private capital markets are limited.

In arriving at our opinion, we have not performed or obtained any independent appraisal of the assets or liabilities (contingent or otherwise) of Katy, nor have we been furnished with any such appraisals. In connection with our engagement, we were not requested to, and we did not, solicit third party indications of interest involving an investment in, a recapitalization of, or acquisition of all or part of, Katy. We have assumed that the Tender Offer and the Preferred Stock Purchase and the Refinancing will be consummated in a timely manner and in accordance with the terms of the Recapitalization Agreement and the Commitment Letter without any limitations, restrictions, conditions, amendments or modifications that collectively would have a material effect on Katy.

We do not express any opinion as to the price or range of prices at which the shares of common stock of Katy may trade subsequent to the announcement of the Tender Offer and the Preferred Stock Purchase and the Refinancing or as to the price or range of prices at which the shares of common stock of Katy may trade subsequent to the consummation of the Tender Offer and the Preferred Stock Purchase and the Refinancing.

In the ordinary course of business, Bear Stearns may actively trade the equity and debt securities of Katy for our own account and for the account of our customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is intended for the benefit and use of the Board of Directors of Katy and does not constitute a recommendation to the Board of Directors of Katy or any holders of Katy common stock as to how to vote their shares of common stock of Katy in connection with the Tender Offer and the Preferred Stock Purchase or whether or not to tender their shares of common stock of Katy in connection with the Tender Offer. This opinion does not address Katy's underlying business decision to pursue the Tender Offer and the Preferred Stock Purchase and the Refinancing, the relative merits of the Tender Offer and the Preferred Stock Purchase, taken as a whole, and the Refinancing, as compared to any alternative business strategies that might exist for Katy or the effects of any other transaction (including the Refinancing) in which Katy might engage. This letter is not to be used for any other purpose, or be reproduced, disseminated, quoted from or referred to at any time, in whole or in part, without our prior written consent; provided, however, that this letter may be included in its entirety in any statement on Schedule 14D-9 to be distributed to the holders of shares of common stock of Katy in connection with the Tender Offer and in any proxy statement to be distributed to the holders of shares of common stock of Katy in connection with the Tender Offer and the Preferred Stock Purchase. Our opinion is subject to the assumptions and conditions contained herein and is necessarily based on economic, market and other conditions, and the information made available to us, as of the date hereof. We assume no responsibility for updating or revising our opinion based on circumstances or events occurring after the date hereof.

Based on and subject to the foregoing, it is our opinion that, as of the date hereof, the Tender Offer and the Preferred Stock Purchase, taken as a whole, are fair, from a financial point of view, to the shareholders of Katy.

Very truly yours,

BEAR, STEARNS & CO. INC.

By: /s/ Marc R. Daniel

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

Senior Managing Director

ANNEX B

EXECUTION COPY

PREFERRED STOCK PURCHASE AND RECAPITALIZATION AGREEMENT

by and among

KKTY HOLDING COMPANY, L.L.C.

and

KATY INDUSTRIES, INC.

Dated as of March 29, 2001

TABLE OF CONTENTS

ARTICLE I THE OFFER.....

SECTION 1.1. The Offer.....

SECTION 1.2. Offer Documents.....

SECTION 1.3. Certain Actions.....

SECTION 1.4. Payment for Offer Shares Tendered and Accepted.....

ARTICLE II PREFERRED STOCK PURCHASE.....

SECTION 2.1. Purchase and Sale.....

SECTION 2.2. Closing.....

ARTICLE III REPRESENTATIONS AND WARRANTIES OF KATY.....

SECTION 3.1. Organization, Qualification, Etc.....

SECTION 3.2. Capitalization.....

SECTION 3.3. Corporate Authority Relative to this Agreement; No Violation.....

SECTION 3.4. Reports and Financial Statements.....

SECTION 3.5. Accounts Receivable, Accounts Payable and Inventory.....

SECTION 3.6. Indebtedness; No Undisclosed Liabilities.....

SECTION 3.7. [Reserved].....

SECTION 3.8. Customers and Suppliers.....

SECTION 3.9. No Violation of Law.....

SECTION 3.10. Transactions with Affiliates.....

SECTION 3.11. [Reserved].....

SECTION 3.12. Environmental, Health and Safety Laws and Regulations.....

SECTION 3.13. Employee Benefit Matters.....

SECTION 3.14. Absence of Certain Changes or Events.....

SECTION 3.15. Investigations; Litigation.....

SECTION 3.16. Products.....

SECTION 3.17. Securities Filings.....

SECTION 3.18. Tax Matters.....

SECTION 3.19. Intellectual Property.....

Edgar Filing: KATY INDUSTRIES INC - Form PRER14A

SECTION 3.20. Severance Payments.....
SECTION 3.21. Title to Properties.....
SECTION 3.22. Licenses.....
SECTION 3.23. Insurance.....
SECTION 3.24. Material Contracts.....
SECTION 3.25. Rights Agreement.....

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PURCHASER.....
SECTION 4.1. Organization, Qualification, Etc.....
SECTION 4.2. Corporate Authority Relative to this Agreement; No Violation.....
SECTION 4.3. Litigation.....
SECTION 4.4. Ownership of Katy Stock.....
SECTION 4.5. No Required Vote of Purchaser Shareholders.....
SECTION 4.6. Securities Filings.....
SECTION 4.7. Loan Commitments.....