

KATY INDUSTRIES, INC.

AMENDED AND RESTATED AUDIT COMMITTEE CHARTER

December 2, 2011

INTRODUCTION

The Board of Directors of Katy Industries, Inc. (“Katy” or the “Company”) hereby defines and establishes the role of its Audit Committee (the “Committee”) with the authority, oversight responsibility, and specific duties as described in the following text.

In the exercise of its oversight responsibilities, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements fairly present the Company’s financial position and results of operation and are in accordance with generally accepted accounting principles (“GAAP”). Instead, such duties remain the responsibility of management and the outside independent registered public accounting firm.

The Committee’s primary function remains review and oversight of: (A) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles, and major issues as to the adequacy of the Company’s internal controls and any special audit steps adopted in light of material control deficiencies; (B) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative GAAP methods on financial statements; (C) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; (D) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of “pro forma” or “adjusted” non-GAAP information), and any financial information and earnings guidance provided to analysts and rating agencies; (E) the Company’s compliance with laws and regulations; and (F) maintenance of an effective and efficient audit of the Companies annual financial statements by a qualified and independent auditor.

Nothing contained in this charter is intended to alter or impair the operation of the “business judgment rule” as interpreted by the courts under the Delaware General Corporation Law. Further, nothing contained in this charter is intended to impose additional legal duties on the members of the Committee beyond those required by law, or to alter or impair the right of the members of the Committee under the Delaware General Corporation Law to rely, in discharging their responsibilities, on the records of the Company and on other information presented to the Committee by the Board of Directors or the Company by its officers, employees or by outside experts.

COMPOSITION

The Committee shall consist of no fewer than three directors of the Company, each of whom shall meet the independence and experience requirements of the New York Stock Exchange and the Securities and Exchange Commission, as then in effect. One of the members shall be appointed Committee Chairman by the Chairman of the Board of Directors. All members of the Committee shall possess financial literacy. Financial literacy is a working familiarity with basic finance and accounting practices, such as an understanding of fundamental financial statements, including balance sheets, income statements and cash flow statements. At least one member of the Committee shall have accounting or related financial management expertise in compliance with the rules of the New York Stock Exchange. The Committee shall strive to have at least one member who is an audit committee financial expert, as such term is defined by the Securities and Exchange Commission in Regulation S-K.

No member of the Committee may serve on the audit committees of more than three public companies at the same time. The members of the Committee shall be appointed by the Board, at the Board's annual meeting, at the recommendation of the Nominating & Governance Committee. Each prospective Committee member, the Nominating & Governance Committee and the Board of Directors of the Company should carefully evaluate existing demands on any prospective Committee member's time before appointment to the Committee. Compensation for services as a director of the Company (including committee memberships) is the only compensation the Committee members may receive from the Company. Any member of the Committee may be replaced by the Board of Directors of the Company at any time.

AUTHORITY

The Committee is granted the authority to investigate any activity of the Company, and all employees are directed to cooperate as requested by members of the Committee. The Committee is empowered to retain independent counsel, advisers or other persons having special competence as necessary to assist the Committee in fulfilling its responsibility.

The Committee shall have the sole authority to appoint, retain, oversee and replace the independent auditors and shall approve all audit engagement fees and terms and all permissible non-audit engagements with the independent auditors. The Committee may consult with management, but shall not delegate these responsibilities.

RESPONSIBILITY

The Committee is to serve as a focal point for communication between noncommittee directors, the independent auditors, internal audit and Katy's management, as their duties relate to financial accounting, reporting, and controls. The Committee is to assist in Board oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications, and the performance of the Company's internal audit function and the independent auditors. The Committee shall be the Board's principal agent in assuring the independence of the Company's independent auditors, the integrity of management, and the adequacy of disclosures to stockholders. The opportunity for the independent auditors to meet with the entire Board of Directors as needed is not restricted. The Committee shall prepare an Audit Committee Report as required by the rules of the Securities and Exchange Commission to be included in Katy's annual proxy statement.

The Committee shall also review and reassess the adequacy of this charter, at least annually, and shall recommend any proposed changes to the Board for approval. The Committee shall also evaluate its own performance on a bi-annual basis.

MEETINGS

The Committee shall meet at least quarterly and as many additional times as the Committee deems necessary. The internal or external auditors, as well as in house and outside legal counsel, may request a meeting if they consider that one is necessary.

As an element of its duty to encourage and facilitate open communication, the Committee should meet as often as it deems advisable with representatives from the Company's executive management, internal auditing department and its independent auditor in separate sessions to discuss any matters that the Committee or any of these groups believe should be discussed. In addition, the Committee should meet with the Company's independent auditor and a representative of the Company's management at least quarterly to review the Company's financial statements.

ATTENDANCE AND QUORUM

Members of the Committee shall make every effort to be present at all meetings; however, a majority of the members of the Committee, including the Chairman, shall constitute a quorum for a meeting. As necessary or desirable, any member of the Committee may request that members of management, independent counsel, advisers, internal auditors and representatives of the independent auditors be present at meetings of the Committee. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

MINUTES

Minutes of each meeting shall be prepared and sent to all members of the Board of Directors. The Chairman of the Committee shall report the results of each Committee meeting at the next regular meeting of the Board of Directors.

SPECIFIC DUTIES

Financial Statements and Disclosure Matters

The Committee shall:

- 1) Review with the Company's management, independent auditors and internal auditors, as deemed necessary by the Committee, the Company's critical accounting policies and procedures, including, but not limited to, judgments that may be viewed as critical, significant changes to Katy's accounting and auditing policies and audit steps adopted in light of material control deficiencies, to reasonably assure the adequacy of internal accounting and financial reporting controls.
- 2) Review quarterly results before their release with management and the independent auditors, including reviewing the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board of Directors whether the quarterly financial statements should be included in Katy's quarterly report on Form 10-Q. The independent auditors should be instructed to communicate with the Committee if there is a probability that any quarterly report, if one is to be issued, will be other than standard.
- 3) Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board whether the audited financial statements should be included in Katy's Annual Report on Form 10-K.
- 4) Review with management and the independent auditor any correspondence with regulators or governmental agencies, any employee complaints or published analyst reports which raise material issues regarding the Company's financial statements or accounting policies.
- 5) Review and discuss with management and the independent auditors: (a) any material financial or non-financial arrangements of Katy which do not appear on the company's financial statements; and (b) any related-party transactions or other courses of dealing with parties related to Katy which are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent, third-parties and which are relevant to an understanding of Katy's financial statements.

- 6) Review and discuss with management its policies and practices regarding earnings press releases, financial information and earnings guidance released publicly or provided to analysts and ratings agencies, giving attention to any use of information which is “pro forma,” “adjusted” or “non-GAAP financial measures.”
- 7) Discuss with management Katy’s major financial risk exposures and the steps management has taken to monitor and control such exposures, including Katy’s risk assessment and risk management policies.
- 8) Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on Katy’s financial statements.

Oversight of Katy’s Relationship with the Independent Auditor

The Committee shall further:

- 9) Approve the engagement or discharge of the independent auditors and approve the compensation of the independent auditors. Prior to engaging a new independent auditor, the Committee shall receive the written disclosure required by Ethics and Independence Rule 3526 of the Public Company Accounting Oversight Board (“Rule 3526”) and discuss with the proposed new auditor the potential effects of the relationships so disclosed on the independence of the proposed new auditor, should it be appointed the Company’s independent auditor. In evaluating the Company’s independent auditors, the Committee will, at least annually, obtain and review a report by the independent auditor describing:
 - a) The experience and qualifications of the key partners and managers;
 - b) A description of the quality control procedures the auditing firm has established;
 - c) Any material issues raised by the most recent internal quality control review, or peer review, of that firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm and describing any steps the firm has taken to deal with any reported problems;
 - d) A description of all relationships between the independent auditors and the Company (“Statement as to Independence”), addressing each permissible non-audit service provided to the Company and otherwise satisfying the requirements of Rule 3526; and
 - e) A description of any other relationships that may adversely affect the independence of the auditor.

- 10) Assure the regular rotation of the lead and concurring audit partner as required by laws, and evaluate whether it is appropriate to rotate independent auditing firms from time to time. Additionally, to maintain the integrity of the independent audit, the Committee will set clear hiring policies for employees or former employees of the independent auditors, taking into account the potential conflicts of interest and other effects on the independence of the persons conducting the Company's audit that may be posed by the hiring of such personnel.
- 11) Assure that the independent auditor understands that it is accountable to the Board of Directors (through the Committee), not management.

Process Improvement

The Committee shall further:

- 12) Establish regular and separate systems of reporting to the Committee by Katy's management, the independent auditor and the internal auditors regarding any significant judgments made in management's preparation of the financial statements, and the view of each as to the appropriateness of such judgments.
- 13) Review and discuss with the independent auditor the audit planning and procedures, including the scope, fees, staffing and timing of the audit; review and discuss the results of the audit exam and management letters, and any reports of the independent auditor with respect to any interim period.
- 14) Review with Katy's internal auditors and the independent auditor the coordination of their audit efforts to assure completeness of coverage, reduction of redundant efforts and effective use of audit resources.
- 15) Review separately with Katy's management, the independent auditor and the internal auditing department, following completion of Katy's annual audit, any significant difficulties encountered during the course of the audit, including: (a) difficulties with management's response; (b) any restrictions on the scope of work or access to required information; and (c) the nature and extent of any significant changes in accounting principles or the application therein.
- 16) Review any significant disagreement among Katy's management and its independent auditor or the internal auditing department in connection with the preparation of Katy's financial statements.
- 17) Review with the independent auditor any audit problems or difficulties and management's response. Such review shall include any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); review any "management" or "internal control" letters issued, or proposed to be issued, by the audit firm to Katy and any discussions with the independent

auditor's national office respecting auditing or accounting issues presented by the engagement.

- 18) Review with Katy's independent auditor, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices and standards, as approved by the Committee, have been implemented, with such review to be conducted at an appropriate amount of time subsequent to implementation of any changes or improvements thereto, as decided by the Committee in its discretion.

Oversight of the Corporation's Internal Audit Function

The Committee shall further:

- 19) Review the appointment, compensation, replacement, reassignment or dismissal of the members of Katy's internal auditing department, including the appointment and replacement of the senior internal auditing executive.
- 20) Review the regular internal reports to management prepared by the internal auditing department and management's responses.
- 21) Discuss with the independent auditor the internal audit department's responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit.

Compliance Oversight Responsibilities

The Committee shall further:

- 22) Obtain from the independent auditor assurance that Section 10A of the Securities Exchange Act of 1934, as amended, has not been implicated.
- 23) Obtain reports from management, Katy's senior internal auditing executive and the independent auditor that Katy and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and Katy's Amended and Restated Code of Business Conduct and Ethics; review reports and disclosures of insider and affiliated party transactions; advise the Board with respect to Katy's policies and procedures regarding compliance with applicable laws and regulations and with Katy's Amended and Restated Code of Business Conduct and Ethics.
- 24) Review any material pending legal proceedings involving Katy and other contingent liabilities; discuss with Katy's chief legal officer or other appropriate officers any legal matters that may have a material impact on the financial statements or Katy's compliance policies.
- 25) Establish procedures for (A) the receipt, retention, and treatment of complaints received by Katy regarding accounting, internal accounting controls, or auditing matters; and (B) the confidential, anonymous submission by employees of Katy of

concerns regarding questionable accounting or auditing matters.

- 26) Meet separately, periodically, with management, with internal auditors (or other personnel responsible for internal audit function) and with independent auditors to identify issues warranting Committee attention
- 27) Cause to be provided to any exchange on which the Company's securities may then be listed appropriate written confirmation of any of the foregoing matters as such exchange may from time to time require.

CERTIFICATION

This Amended and Restated Audit Committee Charter was duly approved by the Board of Directors of the Company on the 2nd day of December, 2011.