



Katy Industries, Inc.

2004 Annual Report

KATY at a glance

Maintenance Products



Continental Commercial Products



JAN SAN PLASTICS US

CONTAINER

ABRASIVES

TEXTILES

FILTERS & GRILL BRICKS

JAN SAN PLASTICS UK

305 Rock Industrial Park Drive
Bridgeton, MO 63044
800-831-7077

15510 Blackburn Ave.
Norwalk, CA 90650
562-921-9967

809 Broad Street
P.O. Box 709
Wrens, GA 30833
800-431-2976

3760 Southside Industrial Parkway
Atlanta, GA 30354
866-624-9300

1895 Brannan Road
McDonough, GA 30253
800-548-5150

Cardrew Way
Redruth, Cornwall,
England
44-1209-315222

Manufacturer and distributor of janitorial and food services equipment and supplies.

Manufacturer and distributor of plastic industrial storage drums, pails and bins.

Manufacturer and distributor of non-woven floor maintenance, hand pads and roof ventilation products.

Manufacturer and distributor of mops, brooms and brushes.

Manufacturer and distributor of filtration, cleaning and specialty products for the food service industry.

Distributor of a wide range of cleaning equipment, storage solutions and wash-room dispensers.

Markets:
Janitorial/Sanitary Maintenance.
Food Service.

Markets:
Commercial/
Industrial Storage.

Markets:
Sanitary Maintenance.
Food Service.
Construction.

Markets:
Sanitary Maintenance.
Food Service.

Markets:
Food Service.
Sanitary Maintenance.

Markets:
Janitorial/Sanitary Maintenance.
Food Service.



Corporate Profile

Katy Industries, Inc. is a diversified manufacturer and distributor organized into two primary industry segments: Maintenance Products and Electrical Products.

Headquartered in Middlebury, Connecticut, Katy is made up of a group of businesses that serves the needs of commercial customers, consumer retail outlets and original equipment manufacturers (OEMs). Katy's businesses serve this varied group by

producing quality products and delivering them efficiently. Katy fosters internal growth through a focus on low-cost production, and through an aggressive marketing and product development program.

Katy Industries, Inc. is traded on the New York Stock Exchange under the symbol KT.

Electrical Products



CONSUMER PLASTICS US

305 Rock Industrial Park Drive
Bridgeton, MO 63044
800-831-7077

Manufacturer and distributor of plastic consumer storage, home and automotive products.

Markets:
Home and Automotive.
Consumer Storage.

METAL TRUCK BOX

305 North Frisco Road
Winters, TX 79567
325-754-4561

Manufacturer and distributor of aluminum and steel automotive storage products.

Markets:
Automotive.
Consumer Storage.

CONSUMER PLASTICS UK

Cardrew Way
Redruth, Cornwall,
England
44-1209-315222

Manufacturer and distributor of plastic tool boxes, shelving and storage organizers.

Markets:
Home.
Consumer Storage.

ABRASIVES CANADA

60 Belfield Road
Etobicoke, Ontario
Canada, M9W 1G1
416-245-5605

Manufacturer and distributor of resin fiber disks and coated abrasives.

Markets:
Automotive.
Home Improvement.
Industrial.
OEM.

ELECTRICAL US

510 Third Avenue, S.W.
Carmel, IN 46032
317-844-7261

Designer and distributor of consumer electric corded products, including extension cords, work lights, surge protectors and power strips.

Markets:
Home Improvement.
Mass Merchant.
Industrial.

ELECTRICAL CANADA

375 Kennedy Road
Scarborough, Ontario
Canada, M1K 2A3
416-267-4610

Designer and distributor of consumer electric corded products, including garden lighting and timers.

Markets:
Home Improvement.
Mass Merchant.
Industrial.





Letter to Stockholders

Dear Stockholders,

In 2004, our costs for primary raw materials, packaging materials, utilities and freight increased by approximately \$24 million from 2003. These extraordinary cost increases have continued into 2005 and if they persist throughout the rest of the year, we estimate that our costs will be over \$50 million higher than they were in 2003. Margins in several of our businesses have been squeezed as our price increases and expense reductions have been unable to keep pace with the continued increase in material costs.

We constantly review the financial performance of our product lines. Accordingly, we have decided to exit some lines in our Consumer Plastics business and to write down assets related to this business. We will announce additional price increases in 2005 in response to the rising raw material prices, and we may exit some other Consumer Plastics products where we believe we cannot make a reasonable profit.

Our financial results for 2004 also suffered as a result of operational difficulties at our largest abrasive factory (in Wrens, Georgia). The operational difficulties delayed the factory's consolidation with our two other abrasives plants and caused some customer service issues. We are fortunate that Glenn Turcotte, who was largely responsible for building our Abrasives business, has agreed to return to the Company to manage this business. We have also added new management and technical expertise to assist in improving the operation of the Wrens factory.

Our Electrical Products group performed well, as did certain business units in our Maintenance Products group, but the cost

increases noted above and the operational difficulties in our Abrasives business more than outweighed these positive results.

Sales and Earnings

Net sales for 2004 were \$457.6 million, an increase of 5% over 2003. We reported a loss from continuing operations of (\$36.1) million which included \$35.1 million of pretax restructuring and other non-recurring or unusual items that are outlined in the chart below. When adjusted to exclude these items and normalized for taxes, the loss from continuing operations totaled (\$0.1) million. For 2003, by comparison, income from continuing operations, as adjusted was \$3.4 million.

	2004	2003
Loss from continuing operations, as reported	\$(36.1)	\$(18.9)
Impairments of long-lived assets	30.8	11.9
Severance, restructuring and related charges	3.5	8.1
Impairment of equity method investment in Sahlman	—	5.5
Other, net	0.8	2.1
Normalizing tax adjustment	0.9	(5.3)
(Loss) income from continuing operations, as adjusted	\$ (0.1)	\$ 3.4

Gross margin declined to 13.3% in 2004 from 16.2% in 2003 due to the high cost of raw materials and inefficiencies in our Abrasives operations. However, selling, general and administrative expenses as a percent of sales showed further improvement, decreasing to 12.5% in 2004 from 13.7% in 2003.

Working Capital and Liquidity

Working capital (defined as a five-quarter average of accounts receivable plus inventory less accounts payable) was at 21% of sales at year-end 2004. Accounts receivable were at 50 days outstanding, inventory at 73 days usage and accounts payable at 42 days outstanding. Free cash flow from operations (defined as cash flow from operations less capital expenditures) was a negative \$21.8 million, mainly due to poor operating results and an increase in inventory of \$11.1 million. Bank debt (net of cash balances) increased \$17.3 million during 2004, ending the year at \$50.2 million. In 2005, we will lower capital expenditures and manage the elements of working capital (including reducing inventory) to improve our free cash flow.

Subsequent Events

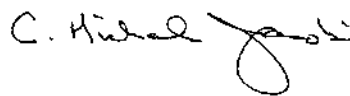
As a result of our financial performance in 2004, we required an amendment to our credit agreement covenants. We recently obtained this amendment and expect that it will meet our needs in 2005 based on our current forecasts of operating results.

Looking Forward

Our efforts in 2005 will be directed toward improving our plastics and Abrasives operations, implementing more price increases and productivity initiatives throughout the Company, and managing our working capital.

Thank you for your continued support of the Company during what is a challenging business climate.

Sincerely,



C. MICHAEL JACOBI
President and Chief Executive Officer

Financial Highlights

Years Ended December 31,

(Amounts in thousands, except share data and percentages)

	2004	2003	2002	2001	2000
Net sales	\$457,642	\$436,410	\$445,755	\$447,108	\$508,850
Loss from continuing operations [a]	\$ (36,121)	\$ (18,887)	\$ (53,083)	\$ (65,464)	\$ (9,111)
Discontinued operations [b]	—	9,523	(1,152)	2,202	3,653
Cumulative effect of a change in accounting principle [b] [c]	—	—	(2,514)	—	—
Net loss	\$ (36,121)	\$ (9,364)	\$ (56,749)	\$ (63,262)	\$ (5,458)
(Loss) earnings per share—basic and diluted:					
Loss from continuing operations	\$ (6.45)	\$ (3.06)	\$ (7.67)	\$ (7.54)	\$ (1.08)
Discontinued operations	—	1.16	(0.14)	0.26	0.43
Cumulative effect of a change in accounting principle	—	—	(0.30)	—	—
Loss per common share	\$ (6.45)	\$ (1.90)	\$ (8.11)	\$ (7.28)	\$ (0.65)
Total assets	\$224,464	\$241,708	\$275,977	\$347,955	\$446,723
Total liabilities	155,879	139,416	157,405	173,691	263,490
Preferred interest in subsidiary	—	—	16,400	16,400	32,900
Stockholders' equity	68,585	102,292	102,172	157,864	150,333
Long-term debt, including current maturities	58,737	39,663	45,451	84,093	133,838
Impairments of long-lived assets	30,831	11,880	21,204	47,469	—
Severance, restructuring and related charges	3,505	8,132	19,155	13,380	2,651
Depreciation and amortization [d]	14,266	21,954	19,259	20,216	21,096
Capital expenditures	13,876	13,435	10,119	12,566	14,196
Working capital [e]	59,855	43,439	35,206	65,733	97,258
Ratio of debt to capitalization	46.1%	27.9%	27.7%	32.5%	42.2%
Weighted average common shares outstanding	7,883,265	8,214,712	8,370,815	8,393,210	8,403,701
Number of employees	1,793	1,808	2,261	2,922	3,509
Cash dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.30

[a] Includes distributions on preferred securities in 2003, 2002, 2001 and 2000.

[b] Presented net of tax.

[c] This amount is a transitional impairment of goodwill recorded with the adoption of SFAS No. 142, Goodwill and Other Intangible Assets.

[d] From continuing operations only.

[e] Defined as current assets minus current liabilities, exclusive of deferred tax assets and liabilities and debt classified as current.

Corporate Information

Board of Directors

Christopher W. Anderson^{(1) (3)}
Associate, Kohlberg & Co.

William F. Andrews^{(2) (4)}
Chairman of the Board

Robert M. Baratta
*Former President and
Chief Executive Officer*

Daniel B. Carroll^{(2) (4)}
Private Investor

Wallace E. Carroll, Jr.⁽³⁾
Chairman of the Board, CRL, Inc.

Samuel P. Freider⁽⁴⁾
Principal, Kohlberg & Co.

C. Michael Jacobi⁽¹⁾
*President and
Chief Executive Officer*

James A. Kohlberg
*Co-Founder and Managing Principal,
Kohlberg & Co.*

Christopher Lacovara^{(1) (2) (3)}
Principal, Kohlberg & Co.

Executive Officers

C. Michael Jacobi
*President and
Chief Executive Officer*

Amir Rosenthal
*Vice President,
Chief Financial Officer,
General Counsel and Secretary*

David S. Rahilly
President, Consumer Products

Headquarters

765 Straits Turnpike
Middlebury, Connecticut 06762
Telephone: (203) 598-0397
Fax: (203) 598-0712

Investor Relations

Stockholders and all prospective investors are welcome to call, write or visit our website (www.katyindustries.com) with questions or requests for additional information.

Contact: Amir Rosenthal
Vice President, Chief Financial Officer,
General Counsel and Secretary.

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
One Bank of America Plaza
800 Market Street
St. Louis, Missouri 63101-2695

Internal Auditors

Ernst & Young LLP
The Plaza in Clayton, Suite 1300
190 Carondelet Plaza
St. Louis, Missouri 63105-3434

Principal Outside Counsel

Hunton & Williams LLP
Bank of America Plaza, Suite 4100
600 Peachtree Street, N.E.
Atlanta, Georgia 30308-2216

Shares Listed

Common—New York Stock Exchange (“NYSE”) (Symbol: KT). Daily stock prices are listed in major newspapers, generally alphabetically under “KatyInd.”

NYSE Certification

Because our common stock is listed on the NYSE, our chief executive officer is required to make, and he has made, an annual certification to the NYSE stating that he was not aware of any violation by us of the corporate governance listing standards of the NYSE. Our chief executive officer made his annual certification to that effect to the NYSE as of June 24, 2004. In addition, we have filed, as exhibits to the Annual Report on Form 10-K, the certifications of our principal executive officer and principal financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

Stockholder Inquiry Service

Correspondence concerning stockholder accounts should be directed to the Transfer Agent and Registrar:

LaSalle Bank N.A.
135 S. LaSalle Street, Room 1811
Chicago, Illinois 60603
(800) 246-5761

Stockholder Information

Additional copies of this Annual Report, proxy statement and Form 10-K filed with the Securities and Exchange Commission, recent and historical financial data and other information about Katy Industries are available without charge to interested stockholders upon request to:

Michael C. Paul
Corporate Director of Financial Reporting and Treasurer
765 Straits Turnpike
Middlebury, Connecticut 06762

or by accessing Katy’s website, www.katyindustries.com. Select “Annual Reports” from the main menu.

Forward-Looking Statements

The statements contained in this Annual Report that are not historical in nature are forward-looking statements. Forward-looking statements are not guarantees since there are inherent difficulties in predicting future results, and actual results could differ materially from those expressed or implied in the forward-looking statements. For a list of major factors that could cause actual results to differ materially from those projected, refer to the Katy Industries’ 2003 Form 10-K, filed with the Securities and Exchange Commission.

(1) Executive Committee (2) Audit Committee (3) Compensation Committee
(4) Nominating and Governance Committee

This Annual Report should be read in conjunction with Katy Industries’ proxy statement dated April 28, 2005 and the Form 10-K. Copies of the proxy statement and Form 10-K may be obtained online at www.katyindustries.com.

Katy Industries, Inc.
765 Straits Turnpike
Middlebury, CT 06762