KATY INDUSTRIES INC
Form 10-Q
November 14, 2011

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2011

Or

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

Commission File Number 001-05558

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

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

305 Rock Industrial Park Drive, Bridgeton, Missouri	63044
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

Class	Outstanding at October 28, 2011
Common Stock, $1 Par Value	7,951,176 Shares

KATY INDUSTRIES, INC.
FORM 10-Q
September 30, 2011

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010
(Amounts in Thousands)

ASSETS

	September 30, 2011	December 31, 2010
CURRENT ASSETS:		
Cash	$2,077	$1,319
Accounts receivable, net	15,469	11,508
Inventories, net	15,165	15,009
Other current assets	753	1,496
Assets held for sale	4,309	4,293
Total current assets	37,773	33,625
OTHER ASSETS:		
Goodwill	665	665
Intangibles, net	2,599	2,832
Other	3,045	3,160
Total other assets	6,309	6,657
PROPERTY AND EQUIPMENT		
Land and improvements	336	336
Buildings and improvements	9,142	9,031
Machinery and equipment	87,536	89,247
	97,014	98,614
Less - Accumulated depreciation	(77,427)	(76,002)
Property and equipment, net	19,587	22,612
Total assets	$63,669	$62,894

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2011 (UNAUDITED) AND DECEMBER 31, 2010
(Amounts in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2011	December 31, 2010
CURRENT LIABILITIES:		
Accounts payable	$11,588	$10,619
Book overdraft	1,034	1,257
Accrued compensation	1,423	1,492
Accrued expenses	10,919	10,460
Payable to related party	1,625	500
Current maturities of long-term debt	6,362	1,275
Revolving credit agreement	18,504	15,432
Liabilities held for sale	1,650	1,345
Total current liabilities	53,105	42,380
LONG-TERM DEBT, less current maturities	-	6,169
OTHER LIABILITIES	5,391	5,306
Total liabilities	58,496	53,855
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
15% Convertible preferred stock, $100 par value; authorized 1,200,000 shares; issued and outstanding 1,131,551 shares; liquidation value $113,155	108,256	108,256
Common stock, $1 par value; authorized 35,000,000 shares; issued 9,822,304 shares	9,822	9,822
Additional paid-in capital	27,110	27,385
Accumulated other comprehensive loss	(1,307)	(1,405)
Accumulated deficit	(117,271)	(113,582)
Treasury stock, at cost, 1,871,128 shares	(21,437)	(21,437)
Total stockholders' equity	5,173	9,039
Total liabilities and stockholders' equity	$63,669	$62,894

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND OCTOBER 1, 2010
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net sales	$33,605	$33,427	$93,746	$97,779
Cost of goods sold	30,041	31,044	84,829	88,387
Gross profit	3,564	2,383	8,917	9,392
Selling, general and administrative expenses	4,570	4,124	13,929	15,286
Severance, restructuring and related charges	393	747	393	1,002
Loss (gain) on disposal of assets	6	(189)	16	(189)
Operating loss	(1,405)	(2,299)	(5,421)	(6,707)
Interest expense	(593)	(355)	(1,392)	(1,171)
Other, net	(42)	106	33	2,466
Loss from continuing operations before income tax (expense) benefit	(2,040)	(2,548)	(6,780)	(5,412)
Income tax (expense) benefit from continuing operations	(9)	(11)	239	501
Loss from continuing operations	(2,049)	(2,559)	(6,541)	(4,911)
Income from operations of discontinued business (net of tax)	917	974	2,852	2,673
Net loss	$(1,132)	$(1,585)	$(3,689)	$(2,238)
Net (loss) income per share of common stock - Basic and diluted				
Loss from continuing operations	$(0.26)	$(0.32)	$(0.82)	$(0.62)
Discontinued operations	0.12	0.12	0.36	0.34
Net loss	$(0.14)	$(0.20)	$(0.46)	$(0.28)
Weighted average common shares outstanding:				
Basic and diluted	7,951	7,951	7,951	7,951

See Notes to Condensed Consolidated Financial Statements.

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KATY INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND OCTOBER 1, 2010
(Amounts in Thousands)
(Unaudited)

	September 30, 2011	October 1, 2010
Cash flows from operating activities:		
Net loss	$(3,689)	$(2,238)
Income from discontinued operations	(2,852)	(2,673)
Loss from continuing operations	(6,541)	(4,911)
Depreciation	3,300	4,562
Amortization of intangible assets	322	334
Write-off and amortization of debt issuance costs	415	411
Stock-based compensation	(610)	(110)
Loss (gain) on sale or disposal of assets	16	(189)
Gain on settlement of existing obligation	-	(2,100)
	(3,098)	(2,003)
Changes in operating assets and liabilities:		
Accounts receivable	(3,997)	(2,860)
Inventories	(213)	(397)
Other assets	977	(434)
Accounts payable	989	1,378
Accrued expenses	53	(500)
Payable to related party	1,125	-
Other	29	(2,625)
	(1,037)	(5,438)
Net cash used in continuing operations	(4,135)	(7,441)
Net cash provided by discontinued operations	3,141	2,422
Net cash used in operating activities	(994)	(5,019)
Cash flows from investing activities:		
Capital expenditures	(238)	(745)
Proceeds from sale of assets	81	128
Net cash used in continuing operations	(157)	(617)
Net cash used in discontinued operations	-	(28)
Net cash used in investing activities	(157)	(645)
Cash flows from financing activities:		
Net borrowings	3,353	6,114
Decrease in book overdraft	(223)	(918)
Proceeds from term loans	-	8,182
Repayments of term loans	(1,081)	(7,299)
Direct costs associated with debt facilities	(272)	(597)
Net cash provided by financing activities	1,777	5,482

Effect of exchange rate changes on cash	132	43
Net increase (decrease) in cash	758	(139)
Cash, beginning of period	1,319	747
Cash, end of period	$2,077	$608

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Basis of Presentation – The condensed consolidated financial statements include the accounts of Katy Industries, Inc. and subsidiaries in which it has a greater than 50% voting interest or significant influence, collectively "Katy" or the "Company". All significant intercompany accounts, profits and transactions have been eliminated in consolidation. The Condensed Consolidated Balance Sheet at September 30, 2011 and the related Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and October 1, 2010 and Cash Flows for the nine months ended September 30, 2011 and October 1, 2010 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations and cash flows of the Company for the interim periods. Interim results may not be indicative of results to be realized for the entire year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The Condensed Consolidated Balance Sheet as of December 31, 2010 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

Fiscal Year – The Company operates and reports using a 4-4-5 fiscal year which always ends on December 31. As a result, December and January do not typically consist of five and four weeks, respectively. The three and nine months ended September 30, 2011 consisted of 63 shipping days and 190 shipping days, respectively, and the three and nine months ended October 1, 2010 consisted of 63 shipping days and 191 shipping days, respectively.

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

Certain reclassifications on the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows were made to the 2010 amounts in order to conform to the 2011 presentation.

Inventories – The components of inventories are as follows (amounts in thousands):

	September 30, 2011	December 31, 2010
Raw materials	$ 7,485	$ 7,845
Finished goods	13,524	12,226
Inventory reserves	(1,165)	(1,250)
LIFO reserve	(4,679)	(3,812)
	$ 15,165	$ 15,009

At September 30, 2011 and December 31, 2010, approximately 57% and 56%, respectively, of Katy's inventories were accounted for using the last-in, first-out ("LIFO") method of costing, while the remaining inventories were accounted for using the first-in, first-out ("FIFO") method. Current cost, as determined using the FIFO method, exceeded LIFO cost by $4.7 million and $3.8 million at September 30, 2011 and December 31, 2010, respectively.

Share-Based Payment – Compensation cost recognized during the three and nine months ended September 30, 2011 and October 1, 2010 includes: a) compensation cost for all stock options based on the grant date fair value amortized over the options' vesting period and b) compensation cost for outstanding stock appreciation rights ("SARs") as of September 30, 2011 and October 1, 2010 based on the September 30, 2011 and October 1, 2010 fair value, respectively. The Company re-measures the fair value of SARs each reporting period until the award is settled and compensation expense is recognized each reporting period for changes in fair value and vesting.

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Compensation (income) expense is included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations. The components of compensation (income) expense are as follows (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Stock option (income) expense	$ -	$ 42	$ (274)	$ 173
Stock appreciation right income	(23)	(177)	(336)	(283)
	$ (23)	$ (135)	$ (610)	$ (110)

For the nine months ended September 30, 2011, stock option income resulted from the reversal of compensation expense recognized on the cancellation of unvested stock options previously held by the Company's Chief Executive Officer, the Company's Chief Financial Officer and the Company's former Vice President-Operations.

The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. As the Company does not have sufficient historical exercise data to provide a basis for estimating the expected term, the Company uses the simplified method for estimating the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. There were no stock options granted during the three and nine months ended September 30, 2011 and October 1, 2010.

The fair value of SARs, a liability award, was estimated at September 30, 2011 and October 1, 2010 using a Black-Scholes option pricing model. The Company estimated the expected term by averaging the minimum and maximum lives expected for each award. In addition, the Company estimated volatility by considering its historical stock volatility over a term comparable to the remaining expected life of each award. The risk-free interest rate is the current yield available on U.S. treasury issues with a remaining term equal to each award. The Company estimates forfeitures using historical results. Its estimates of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from their estimate. The assumptions for expected term, volatility and risk-free rate are presented in the table below:

	September 30, 2011	October 1, 2010
Expected term (years)	1.2 - 5.0	0.1 - 6.0
Volatility	187.4% - 246.2%	139.5% - 207.8%
Risk-free interest rate	0.2% - 1.0%	0.2% - 1.6%

Comprehensive (Loss) Income – The components of comprehensive (loss) income are as follows (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net loss	$ (1,132)	$ (1,585)	$ (3,689)	$ (2,238)
Foreign currency translation (gains) losses	(94)	(7)	98	53
Comprehensive loss	$ (1,226)	$ (1,592)	$ (3,591)	$ (2,185)

The components of accumulated other comprehensive (loss) income are foreign currency translation adjustments and pension and other postretirement benefits adjustments. The balance of foreign currency translation adjustments was $0.6 million and $0.7 million at September 30, 2011 and December 31, 2010, respectively. The balance of pension and other postretirement benefits adjustments was $0.7 million at each of September 30, 2011 and December 31, 2010.

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

Note 2. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards – In October 2009, the Financial Accounting Standards Board ("FASB") issued guidance concerning multiple-deliverable arrangements which would enable vendors to account for products or services separately rather than as a combined unit. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company's adoption of this guidance had no effect on the Company's financial position or results of operations.

In January 2010, the FASB issued guidance which revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It also requires the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The guidance about Level 1 and 2 transfers was effective immediately, and the guidance about gross presentation of Level 3 activity is effective for fiscal years beginning after December 15, 2010. The adoption of the guidance had no effect on the Company's financial position or results of operations.

Accounting Standards Not Yet Adopted – In May 2011, the FASB issued further guidance which generally aligns the principles of fair value measurements with International Financial Reporting Standards. The guidance clarifies the application of existing fair value measurement requirements and expands the disclosure requirements for fair value measurements, and is effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of the guidance to have any effect on its financial position or results of operations.

In June 2011, the FASB issued guidance concerning the presentation of comprehensive income. The guidance gives companies the option to present total comprehensive income, components of net income, and components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for fiscal years beginning after December 15, 2011, and should be applied retrospectively. While the amendments will amend the presentation of comprehensive income, the adoption will not have any effect on the Company's financial position or results of operations.

In September 2011, the FASB issued an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. This new guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance, but does not expect the adoption will have a material effect on its financial position or results of operations.

Note 3. INTANGIBLE ASSETS

Following is detailed information regarding Katy's intangible assets (amounts in thousands):

	September 30, 2011			December 31, 2010		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Patents	$1,334	$ (1,104)	$230	$1,245	$ (1,041)	$204
Customer lists	9,391	(8,368)	1,023	9,391	(8,258)	1,133
Tradenames	4,099	(2,753)	1,346	4,099	(2,604)	1,495
Total	$14,824	$ (12,225)	$2,599	$14,735	$ (11,903)	$2,832

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All of Katy's intangible assets are definite long-lived intangibles. Estimated aggregate future amortization expense related to intangible assets is as follows (amounts in thousands):

2011 (remainder)	$264
2012	420
2013	401
2014	384
2015	370
Thereafter	760
	$2,599

Note 4. INDEBTEDNESS

Long-term debt consists of the following (amounts in thousands):

	September 30, 2011	December 31, 2010
Term loan payable under the PNC Credit Agreement, interest based on Base Rate of 8.50%	$6,362	$7,444
Revolving loans payable under the PNC Credit Agreement, interest based on Base Rates (5.25% - 5.50%)	18,504	15,432
Total debt	24,866	22,876
Less revolving loans, classified as current	(18,504)	(15,432)
Less current maturities	(6,362)	(1,275)
Long-term debt	$-	$6,169

On May 26, 2010, Continental Commercial Products, LLC ("CCP") and Glit/Gemtex, Ltd. (collectively with CCP, the "Borrowers"), wholly owned subsidiaries of the Company, and the Company, as guarantor, entered into a Revolving Credit, Term Loan and Security Agreement (the "PNC Credit Agreement") with PNC Bank, National Association ("PNC Bank"). During the six months ended July 1, 2011, the PNC Credit Agreement was amended four times to reduce the minimum level of required availability (as discussed below) and waive certain financial and capital event covenants. The PNC Credit Agreement was amended a fifth time on August 15, 2011 to waive certain financial and capital event covenants, reduce the maximum amount of the revolving credit facility upon the occurrence of a capital event, amend certain financial covenants for the remaining term of the agreement, and change the termination date of the PNC Credit Agreement from May 26, 2013 to February 28, 2012. Due to the change of the termination date of the PNC Credit Agreement, all outstanding obligations as of September 30, 2011 have been classified as a current liability.

The PNC Credit Agreement is a $33.2 million credit facility with an $8.2 million term loan (the "Term Loan") and a $25.0 million revolving loan (the "Revolving Credit Facility"), including a $3.5 million sub-limit for letters of credit. The proceeds of the Term Loan and Revolving Credit Facility were used to repay the Second Amended and Restated Credit Agreement with Bank of America ("Bank of America Credit Agreement") and pay fees and expenses associated with the negotiation and consummation of the PNC Credit Agreement. All extensions of credit under the PNC Credit Agreement are collateralized by a first priority security interest in and lien upon substantially all present and future assets and properties of the Company. The Company guarantees the obligations of the Borrowers under the PNC Credit Agreement. Upon the occurrence of the Sale Event, as defined in the Fifth Amendment and Waiver to

Revolving Credit, Term Loan and Security Agreement (“Fifth Amendment”), which occurred on October 4, 2011, the Revolving Credit Facility was reduced to $8.5 million.

Under the terms of the PNC Credit Agreement, as amended, the principal balance of the Term Loan is payable in monthly installments followed by a final installment on February 28, 2012 equal to the then outstanding and unpaid principal balance of the Term Loan. Mandatory prepayments of the Term Loan will be required upon the occurrence of certain events, including sales of certain assets, and the Company must make annual prepayments of the Term Loan in an amount equal to 50% of excess cash flow (as defined in the PNC Credit Agreement). Upon the occurrence of the Sale Event, as defined in the Fifth Amendment, which occurred on October 4, 2011, all remaining obligations under the Term Loan were repaid by the Company.

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The Revolving Credit Facility, as amended, has an expiration date of February 28, 2012 and its borrowing base is determined by eligible inventory and accounts receivable, amounting to $23.9 million at September 30, 2011. The Company's borrowing base under the PNC Credit Agreement is reduced by the outstanding amount of standby and commercial letters of credit. Currently, the Company's largest letters of credit relate to its casualty insurance programs. At September 30, 2011, total outstanding letters of credit were $2.4 million. The PNC Credit Agreement requires the Company to have a minimum level of availability such that its eligible collateral must exceed the sum of its outstanding borrowings and letters of credit by a certain amount. The Company amended the PNC Credit Agreement three times during the first quarter of 2011 to reduce the minimum level of required availability. The first and second amendments to the PNC Credit Agreement reduced the minimum level of required availability from $1.5 million to $1.1 million through February 4 and February 11, 2011, respectively. The third amendment to the PNC Credit Agreement ("Third Amendment") reduced the minimum level of required availability dollar for dollar by the aggregate amount of cash infusions into the Company (and further distributed to the Borrowers) by members of management of the Company and/or such other persons who are reasonably acceptable to PNC Bank, on the date when made. The minimum level of availability remained at the reduced amount through and including May 1, 2011, and was reinstated to $1.5 million on May 2, 2011. As a result of $0.2 million received on February 12, 2011, the minimum level of required availability was reduced from $1.5 million to $1.3 million on February 12, 2011. An additional $0.8 million was received on February 15, 2011, further reducing the minimum level of required availability to $0.5 million on February 15, 2011.

The Term Loan bears interest at the Company's option at either (i) the Eurodollar Rate (as defined in the PNC Credit Agreement), plus 6.25% or (ii) the Base Rate (as defined in the PNC Credit Agreement), plus 5.25%. Borrowings under the Revolving Credit Facility bear interest at the Company's option at either (x) the Eurodollar Rate plus 3.25% or (y) the Base Rate plus 2.25%. For U.S. dollar borrowings, the Base Rate is the highest of (i) the Federal Funds Open Rate (as defined in the PNC Credit Agreement) plus one half of 1.0%, (ii) the interest rate announced by PNC Bank as its base commercial lending rate and (iii) the sum of the Daily LIBOR Rate (as defined in the PNC Credit Agreement) plus 1.0%. For Canadian dollar borrowings, the Base Rate is the higher of (x) the interest rate announced by the PNC Bank Canada Branch as its reference rate of interest for loans in Canadian dollars to Canadian borrowers and (y) the sum of the one month CDOR Rate (as defined in the PNC Credit Agreement) plus 1.75%. An unused commitment fee of 50 basis points per annum will be payable quarterly on the average unused amount of the Revolving Credit Facility.

The PNC Credit Agreement includes financial covenants regarding minimum earnings before interest, taxes, depreciation and amortization ("EBITDA," as defined in the PNC Credit Agreement) and fixed charge coverage ratio. The third, fourth and fifth amendments to the PNC Credit Agreement amended these covenants. The Company was not in compliance with these financial covenants at July 1, 2011; however, the violation of these financial covenants was waived by the Fifth Amendment. Additionally, the first amendment to the PNC Credit Agreement added a covenant requiring the Company to consummate a capital event no later than May 1, 2011, defined as either a capital infusion, in the form of either equity or debt or pursuant to a sale or other disposition of assets. As the Company did not consummate a capital event by May 1, 2011, which constituted an Event of Default, as defined in the PNC Credit Agreement, the Company entered into a fourth amendment to the PNC Credit Agreement ("Fourth Amendment") on May 16, 2011. The Fourth Amendment waived the default, provided the Company consummated a Sale Event, as defined in the first amendment to the PNC Credit Agreement, no later than July 6, 2011. As the Company did not consummate a Sale Event by July 6, 2011, which constituted an Event of Default, as defined in the PNC Credit Agreement, the Company entered into the Fifth Amendment on August 15, 2011. The Fifth Amendment waived the default, provided the Company consummated a Sale Event, as defined in the Fifth Amendment, no later than September 15, 2011. The Fifth Amendment also further amended the EBITDA covenant and will provide the Borrowers with additional flexibility under this covenant. The Sale Event, as described in Note 11, was consummated on October 4, 2011.

All of the debt under the PNC Credit Agreement is re-priced to current rates at frequent intervals. Therefore, its fair value approximates its carrying value at September 30, 2011. For the three and nine months ended September 30, 2011, the Company had amortization of debt issuance costs, included within interest expense, of $0.1 million and $0.4 million, respectively. For the three and nine months ended October 1, 2010, the Company had amortization of debt issuance costs, included within interest expense, of $48,000 and $0.4 million, respectively. Included in amortization of debt issuance costs for the nine months ended October 1, 2010 was approximately $0.2 million of debt issuance costs written off due to the extinguishment of the Bank of America Credit Agreement. The Company incurred $0.3 million of debt issuance costs during the nine months ended September 30, 2011, associated with amending the PNC Credit Agreement.

In addition, CCP and the Company entered into an Export-Import Revolving Credit and Security Agreement ("Ex-Im Agreement") with PNC Bank, which provides for up to a $1.5 million revolving advance amount on certain foreign accounts receivable as part of the Revolving Credit Facility. Concurrent with the Third Amendment, Fourth Amendment and Fifth Amendment, the Company entered into corresponding amendments to the Ex-Im Agreement to amend the financial covenants contained in the Ex-Im Agreement to be consistent with the related PNC Credit Agreement amendments.

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On October 4, 2011, the Company terminated the PNC Credit Agreement and related Ex-Im Agreement and paid in full all amounts outstanding under those agreements, as further discussed in Note 11.

Note 5. RETIREMENT BENEFIT PLANS

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

Information regarding the Company's net periodic benefit cost for pension and other postretirement benefit plans for the three and nine months ended September 30, 2011 and October 1, 2010 is as follows (amounts in thousands):

	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Components of net periodic benefit cost:				
Interest cost	$ 18	$ 18	$ 55	$ 55
Expected return on plan assets	$ (16)	$ (16)	(47)	(47)
Amortization of net loss	$ 11	$ 11	33	33
Net periodic benefit cost	$ 13	$ 13	$ 41	$ 41

	Other Benefits			
	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Components of net periodic benefit cost:				
Interest cost	$ 26	$ 12	$ 77	$ 77
Reversal of amortization of net loss	-	(16)	-	-
Net periodic benefit cost	$ 26	$ (4)	$ 77	$ 77

During the three and nine months ended September 30, 2011, the Company made contributions to the pension plans of $34,000 and $63,000, respectively. The Company expects to contribute an additional $14,000 to the pension plans throughout the remainder of 2011. The Company uses a December 31 measurement date for its pension and other postretirement benefit plans. The fair value of plan assets was determined by using quoted prices in active markets for identical assets (Level 1 inputs per the fair value hierarchy).

Note 6. STOCK INCENTIVE PLANS

The Company has various stock incentive plans that provide for the granting of stock options, nonqualified stock options, SARs, restricted stock, performance units or shares and other incentive awards to certain employees and directors. Options have been granted at or above the market price of the Company's stock at the date of grant, typically vest over a three-year period, and are exercisable not less than twelve months or more than ten years after the date of grant. SARs have been granted at or above the market price of the Company's stock at the date of grant, typically vest over periods up to three years, and expire ten years from the date of issue. No more than 50% of the cumulative number of vested SARs held by an employee can be exercised in any one calendar year.

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The following table summarizes stock option activity under each of the Company's applicable plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2010	1,362,000	$1.96		
Granted	-	$-		
Exercised	-	$-		
Expired	(304,000)	$4.21		
Cancelled	(1,000,000)	$1.17		
Outstanding at September 30, 2011	58,000	$3.89	1.2 years	$-
Vested and Exercisable at September 30, 2011	58,000	$3.89		