

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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 In re: : Chapter 11
 :
 : Case No. 17-11101 (____)
 KATY INDUSTRIES, INC., *et al.*,¹ :
 : (Joint Administration Requested)
 Debtors. :
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**DECLARATION OF LAWRENCE PERKINS
IN SUPPORT OF CHAPTER 11 PETITIONS AND
FIRST DAY MOTIONS AND APPLICATIONS**

I, Lawrence Perkins, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer (“CRO”) of the above-referenced debtors (collectively, the “Debtors” or the “Company”) in these chapter 11 cases. I have served as the Debtors’ CRO since July 28, 2016. Prior to that time, I have served as a chief restructuring officer, principal investor, turnaround advisor, strategic consultant, investment banker, financial executive, and crisis manager to numerous middle market companies across various industries, including manufacturing, technology, automotive, consumer products, financial services, healthcare, retail, and telecommunications.

2. Except as otherwise indicated, all facts set forth in this declaration (the “Declaration”) are based upon my personal knowledge, my discussions with other members of the Debtors’ management team, the Debtors’ employees or the Debtors’ advisors, my review of relevant documents and information concerning the Debtors’ operations, financial affairs, and

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Katy Industries, Inc. (7589), Continental Commercial Products, LLC (3898), FTW Holdings, Inc. (7467), Fort Wayne Plastics, Inc. (7470), Wabash Holding Corp. (9908), Katy Teweh, Inc. (9839), WII, Inc. (0456), TTI Holdings, Inc. (8680), GCW, Inc. (5610), Hermann Lowenstein, Inc. (4331), American Gage & Machine Company (7074), WP Liquidating Corp. (2310), Ashford Holding Corp. (8113), and HPMI, Inc. (4677). The corporate headquarters and the mailing address for the Debtors listed above is 11840 Westline Industrial Drive, Suite 200, St. Louis, MO 63146.

restructuring initiatives, or my opinions based upon my experience and knowledge. If called as a witness, I could and would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

3. I am generally familiar with the Debtors' day-to-day operations, business affairs, books, and records, as well as the Debtors' restructuring efforts. I submit this Declaration to assist the Court and parties in interest in understanding, among other things, the Debtors' operations, their corporate structure, and circumstances that led to the commencement of these chapter 11 cases and in support of the Debtors' petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") filed on May 14, 2017 (the "Petition Date") and the relief that the Debtors request from the Court pursuant to the motions and applications described in this Declaration (collectively, the "First Day Motions").

4. To familiarize the Court with the Debtors and the relief sought in the First Day Motions filed in these chapter 11 cases, this Declaration is organized in five parts. Part I provides an introduction to the Debtors and detailed information on the Debtors' corporate history, corporate structure, and business operations. Part II provides an overview of the Debtors' capital and debt structures. Part III describes the circumstances leading to the commencement of these chapter 11 cases. Part IV describes the marketing and sale process undertaken by the Debtors and their professionals in an effort to sell substantially all of the Debtors' assets. Part V sets forth the relevant facts in support of each of the First Day Motions filed in connection with these chapter 11 cases.

I.
**DESCRIPTION OF COMPANY’S HISTORY,
CORPORATE STRUCTURE, AND BUSINESS OPERATIONS**

A. The Company Overview and Corporate History

5. The Company was founded in 1967 by the industrialist Carroll family and was organized as a Delaware corporation with its headquarters in Colorado. Shortly after its formation, the Company went public, having its initial public offering on the New York Stock Exchange in 1968. Since then, the Company has evolved into a leading manufacturer, importer, and distributor of commercial cleaning and consumer storage products, as well as a contract manufacturer of structural foam products.

6. In addition to its natural growth and expansion over the years, the Company has made a series of strategic acquisitions to expand its operations. For example, in 1998, the Company acquired Wilen Companies (“Wilen”), originally incorporated in Atlanta, Georgia, to enhance the Company’s platform of continued growth and expansion of its professional cleaning and abrasive product line. The Wilen unit was then consolidated with the manufacturing facility in Bridgeton, Missouri, which was subsequently moved to Jefferson City, Missouri. In 1999, the Company acquired the business of Contico International, Inc. (“Contico”), a manufacturer and distributor of a wide variety of consumer storage, home, and automotive products, as well as janitorial and food service equipment. The Company then divested its Contico Europe consumer products unit in 2006, refocusing on the United States and Canadian markets. In February 2014, the Company acquired a manufacturing facility in Fort Wayne, Indiana, which provides manufacturing capabilities of molded plastic components which has proved highly complementary to the Company’s existing operations. In April 2015, the Company completed yet another acquisition of substantially all of the assets and business operations, including a manufacturing plant in Tiffin, Ohio, related to the plastic shelving and cabinet division of

Centrex Plastics, LLC (“Centrex”) and T.R. Plastics, LLC, the Ohio-based companies, which brought a breadth of shelving and storage cabinet solutions to the Company’s consumer storage product line.

7. The Company’s corporate headquarters are located in St. Louis, Missouri. The Company’s business operations include manufacturing at three plant facilities located in the United States, and distribution across the United States and Canada. The Company currently employs approximately 300 nonunion employees and supplements its workforce with additional temporary personnel, independent contractors, and external sales force. The Company boasts a broad and loyal customer base with over 1,500 customers encompassing stable industry leaders, providing the Company with a sustainable platform of consumable products and a recurring revenue source.

B. The Company’s Corporate Structure

8. The Debtors in these chapter 11 cases are Katy Industries, Inc., a publicly traded Delaware corporation (“Katy”), and certain of its wholly-owned direct and indirect subsidiaries. A chart depicting the prepetition organizational structure of the Company, including Debtors and non-Debtors, is attached to this Declaration as **Exhibit A**. The Company’s key operational entities are: (i) Continental Commercial Products, LLC (formerly Contico International, LLC), a Delaware limited liability company, (“Continental”) that operates two manufacturing plants, one in Jefferson City, Missouri and another in Tiffin, Ohio, and (ii) Fort Wayne Plastics, Inc., an Indiana corporation, (“FWP”) that operates a plant in Fort Wayne, Indiana. FTW Holdings, Inc., a Delaware corporation, (the “FTW Holding”) is a holding company of FWP that has no operations of its own.

9. Continental, in turn, directly and indirectly owns certain foreign non-Debtor affiliates – 2155735 Ontario Inc., an Ontario corporation (“Ontario”), and CCP Canada, Inc.,

also an Ontario corporation (“CCP Canada” and together with Ontario, the “Nondebtor Foreign Affiliates”).² Ontario is a holding company of CCP Canada without any operations of its own, whereas CCP Canada is a distributor of Continental’s products on the Canadian market.

10. With one exception,³ the remaining Debtors are all inactive entities, which continue their legal existence but have no operations since substantially all of their assets have been sold over the past years (collectively, the “Inactive Debtors”). The Inactive Debtors do not have any substantial assets and merely hold a variety of legacy liabilities relating to their prior operations, as discussed in more detail below.

C. The Debtors’ Equity Ownership

11. Katy is a publicly traded company, which common stock is registered for public trading on the OTC Bulletin Board system (“OTCBB”) under the symbol “KATY.” Since June 2001 through August 2016, KKTY Holding Company, LLC, an affiliate of Kohlberg Investors IV, L.P., and certain funds affiliated with Kohlberg & Company, L.L.C. (collectively, “Kohlberg”) held 1,131,551 outstanding shares of Katy’s convertible preferred stock. In August 2016, however, Kohlberg sold all of its 1,131,551 shares of convertible preferred stock of the Company to VPC SBIC I, LP (the “VPC Fund”) pursuant to a stock purchase agreement. The preferred stock is convertible into an aggregate of 18,859,183 shares of common stock, which, if converted in full, would represent approximately 86% of the outstanding common stock.

² Continental is also a direct 100% owner of 3254018 Nova Scotia Limited, another Canadian entity, which, since its inception, has never had any operations.

³ W.J. Smith Wood Preserving Company, a Texas corporation (“W.J. Smith”), is not a debtor in these chapter 11 cases. On March 20, 2017, Katy entered into a *Real Estate Consulting, Advisory & Auction Services Agreement* (the “Auction Services Agreement”) with Hilco Real Estate Auctions, LLC (“Hilco”) to sell a parcel of land located in Denison, Texas (the “Denison Property”) through an accelerated sale process. The auction of the Denison Property is part of the larger sale with other sellers of adjacent lots. The bid deadlines and auction are currently scheduled for May 18, 2017, with the sale closing scheduled 30 days following the auction. Although the Denison Property is not subject to any liens under the various financing arrangement described below, the net proceeds from the sale of the Denison Property will be applied to the amounts advanced under the First Lien Revolving Credit Facility (as defined below).

D. The Company's Business Operations

12. The Company generally has a top-three market position in its core manufacturing markets, including plastic storage products, commercial cleaning products, and disposable cleaning accessories. The Company's business units operate in three primary business segments: (i) plastic products for the janitorial and food services industries and professional cleaning products, (ii) manufacturing and distributing home storage products, and (iii) medium-to-large sized engineered plastic components. The Company's consumer storage products, including plastic totes, cabinets, and shelves, are primarily sold through hardware, home improvement, mass merchant, and sporting goods outlets. The Company's professional cleaning products, including mops, brooms, and brushes, are sold primarily to industrial, janitorial, sanitary, and foodservice distributors that supply end users in the education, foodservice, government, healthcare, lodging, office supply, recreation, and transportation segments. The Company's contract manufactured structural foam services are primarily sold through the auto aftermarket and material handling markets. The Company's operations include both manufacturing and distribution. The Company's manufacturing is localized within the United States, and the distribution takes place across the United States and Canada from two specifically designated distribution facilities.

a. Manufacturing

13. The Company operates three plants. One of the Debtors' key plants is located in Jefferson City, Missouri (the "Jefferson City Plant"). The Jefferson City Plant is operated by Continental and is engaged in manufacturing, tooling, assembly, warehousing, and distributions. The Company leased plant premises are 530,000 square feet, which house a significant amount of injection presses. Approximately 105 employees work at the Jefferson City Plant.

14. The plant in Tiffin, Ohio (the “Tiffin Plant”) is also operated by Continental and serves as a manufacturing, warehousing, and maintenance facility. The Company leases the Tiffin Plant premises, consisting of 96,000 square feet of leased property. The Company also leases a 40,000-square-foot warehouse facility near Tiffin (the “Fostoria Warehouse”). Approximately 90 employees work at the Tiffin Plant, and no employees work at the Fostoria Warehouse.

15. The Debtors’ plant in Fort Wayne, Indiana (the “Fort Wayne Plant”) is operated by FWP. It manufactures medium- to large-sized molded plastic components, specializing in low pressure, multi-nozzle structural plastic, and gas-assist solutions. Approximately 55 employees work at the Fort Wayne Plant.

16. As discussed in detail below, the Company has three business units: (i) Janitorial-Sanitary & Foodservice, (ii) Home Storage, and (iii) Fort Wayne Plastics. In the fiscal year 2016, the Company generated revenues of approximately \$107.9 million across its business units.

ii. Janitorial-Sanitary & Foodservice Business Unit

17. The Janitorial-Sanitary & Foodservice (“Jan-San & Foodservice”) business unit, also frequently referred to as the “Commercial” segment, is known through two of its widely recognized commercial brands – “Continental” or “Continental Commercial Products” and “Wilen.” Continental is a plastics manufacturer and an importer and distributor of products for the commercial janitorial and sanitary maintenance in the industrial and foodservice markets. It is the second largest manufacturer in the plastic cleaning products market. The Continental products within the Jan-San & Foodservice business unit include commercial waste receptacles, floor care, and mopping equipment, restroom accessories, material handling, and other products

designed for commercial cleaning and foodservice. Continental products are sold under the following brand names: Continental®, Kleen Aire®, Huskee®, SuperKan®, King Kan®, Unibody®, Tilt-NWheel®, Wall Hugger™, Colossus®, Derma-Tek®, Ergo Worx® ErgoFlo®, Color Guard®, and Tuff Can®. Some of Continental's key customers and distributors include Bunzl, Restaurant Depot, Grainger, Plus II, and Clark.

18. The Wilen brand is a manufacturer, importer, and distributor of more than 650 professional cleaning products that include mops, brooms, sweeps, poles and handles, microfiber, brushes, and plastic cleaning accessories. Wilen products are primarily sold through commercial janitorial and sanitary maintenance in the industrial and food service markets, with some products sold through consumer retail outlets. Wilen products are sold under the following brand names: Wilen®, Wax-o-matic®, Tie-Free®, Clean Sweep®, Earth Mop®, Jean Clean®, Brushworx®, ActionPro®, Muscle Mop®, MusclePro®, Bullet Proof®, King Cotton®, and Derma-Tek®. Some of Wilen's key customers and distributors include Bunzl, Next Day Gourmet, Sysco, and Walmart.

19. The Company manufactures about 70% of the Jan-San & Foodservice product line and purchases the remaining 30%. The 2016 revenue associated with the sale of the Jan-San & Foodservice products is approximately \$55.2 million, which comprises about 51% of the Company's total revenue. The majority of the Company's sales force is comprised of external regional sales team that have strong customer relationships within their respective regions, thus providing an immediate access to the relevant markets.

ii. Home Storage Business Unit

20. The Home Storage, also known as Contico or Consumer Storage, business unit is a plastics manufacturer and distributor of garage cabinets and tools and other home storage

products, which are primarily sold through major home improvement and mass market retail outlets. The Home Storage business unit prides itself on the fact that its products are “Made in the USA.” Home Storage products include cabinets, tool boxes, shelving, crates and totes, and hard plastic gun cases that are sold under the following brand names: Contico®, Tuffbin®, SilverWolf®, Workbin®, Fundamentals®, and other private label brands. Contico® is a registered trademark used under license from Contico Europe. Many of Home Storage products are proprietary product designs. Some of the key customers and distributors of Contico products include Lowes, Walmart, The Container Store, Grainger, Menards, Costco, and Orgill.

21. The Company manufactures 100% of its Home Storage product line at the Jefferson City Plant and Tiffin Plant. The 2016 revenue associated with the sales of Home Storage products was \$40.8 million, or 38% of the Company’s total revenue. The sales force for the Home Storage business unit is comprised of internal and external sales force.

iii. Fort Wayne Plastics Business Unit

22. The Fort Wayne Plastics business unit is a contract manufacturer for various Original Equipment Manufacturers (OEMs). It has a diverse portfolio of highly engineered products that include service carts, water bottle racks, egg carriers, pallets, and containers, with a strong presence in auto aftermarket, agriculture, water handling, and food and bottled water applications. FWP is differentiated from its competitors in its unique ability to provide its customer base with secondary services including drilling, sonic, welding, and assembly, as well as logistical fulfillment. FWP is also a manufacturer of structural foam products for use and supply to the Continental and Contico business units. The 2016 revenue generated was \$12.0 million, or 11% of the Company’s total revenue.

b. Distribution

23. In addition to the plants that also serve as warehousing facilities for the manufactured products, there are two specifically designated warehouse and distribution facilities for the Jan-San & Foodservice products: (i) a distribution center in Fontana, California, managed by a third-party logistics provider and (ii) a distribution warehouse in Toronto, Canada, which is operated by non-Debtor CCP Canada. The Company utilizes third-party logistics providers to manage distribution and shipping of the Jan-San & Foodservice products within the United States. In Canada, however, the distribution of the Jan-San & Foodservice products is managed by the logistics employees directly employed by CCP Canada. At any one time, CCP Canada employs between two to four employees. For the storage of the Home Storage products, the Company utilizes the Fostoria Warehouse. For the distribution and shipping of the Home Storage products manufactured at the Tiffin Plant, the Company directly employs a handful of full time and temporary logistics employees. Similarly, the manufacturing at the Fort Wayne Plant is performed by full time and temporary employees directly employed by the Company.

c. Support Services Provided by Katy

24. Katy provides certain support functions to Jan-San & Foodservice, Home Storage, and Fort Wayne Plastics business units. Specifically, the senior management team oversees the general operations of the Company, and plant-level general managers manage the day-to-day business. Further, the finance, accounting, and risk management functions for each business unit are managed at the corporate level and are overseen by the Chief Financial Officer. Several Jan-San & Foodservice and Home Storage sales managers are employed by Katy and report directly to its senior management team. Additionally, Katy manages at the corporate level all marketing, customer service, order entry, and pricing functions as well as the distribution, purchasing, order

entry, human resources, and information technology functions. Approximately 48 employees are employed by Katy.

II. **THE DEBTORS' CAPITAL STRUCTURE**

25. The Debtors estimate that, as of the Petition Date, they had approximately \$70 million in total assets on a book basis. The vast majority of the Debtors' tangible assets are on the books of Continental and FWP in the approximate amounts of \$55.1 million and \$13.7 million respectively. Continental has substantial tangible assets on account of its (i) inventory in the approximate amounts of \$7.1 million, (ii) accounts receivable in the approximate amount of \$7.7 million, equipment in the approximate amount of \$10.7 million and intangible assets (comprising of good will, trade name, and customer base) in the approximate amount of \$21.9 million.

26. As of the Petition Date, the Debtors had approximately \$100 million in total liabilities on a book basis. As is described in greater detail below, as of the Petition Date, the amount of the Debtors' funded debt obligations (the "Prepetition Debt Obligations") totaled approximately \$56 million. The Prepetition Secured Debt Obligations comprises the obligations under the First Lien Revolving Credit Facility (as defined below) and the Second Lien Term Credit Facility (as defined below). The rest of the Debtors' obligations are largely comprised of unsecured trade claims and legacy liabilities.

a. First Lien Revolving Credit Facility

27. On February 19, 2014, (i) Katy, (ii) Continental, (iii) FWP, (iv) FTW Holdings, (v) non-Debtor Ontario, and (vi) non-Debtor CCP Canada as co-borrowers (the "Original Borrowers") entered into a *Credit and Security Agreement* (as subsequently amended, the "Original First Lien Credit Agreement") with BMO Harris Bank N.A. (the "Original First Lien

Lender”), pursuant to which the Original First Lien Lender agreed to provide a revolving credit facility in the aggregate principal amount not to exceed \$33,000,000, including a \$3,000,000 sub-limit for letters of credit. The proceeds of the borrowing under the Original First Lien Credit Agreement were used, among other things, to repay the Original Borrowers’ prior credit facility and finance the acquisition of FWP. All extensions of credit under the Original First Lien Credit Agreement were collateralized by a first priority security interest in and lien upon substantially all then-present and future assets and properties of the Original Borrowers.

28. On November 16, 2016, all outstanding borrowings under the Original First Lien Credit Agreement were repaid with proceeds of a Credit and Security Agreement (the “First Lien Revolving Credit Facility”) entered into by and between Encina Business Credit SPV, LLC, as agent and swing line lender, (“First Lien Agent”) and certain other lenders (the “First Lien Lenders”) and together with First Lien Agent, the “First Lien Secured Parties”) and the Original Borrowers (with respect to the First Lien Revolving Credit Facility, the “First Lien Borrowers”). The Original First Lien Credit Agreement was terminated, resulting in a prepayment penalty, approximately \$233,333 of which remains outstanding as of the Petition Date. The First Lien Revolving Credit Facility originally provided for a (i) \$25 million revolving credit facility, including a \$2.5 million sub-limit for letters of credit and \$2.5 million sub-limit for swing line loans, (ii) a term loan in the principal amount of \$3.5 million, and (iii) a term loan in the principal amount of \$3.1 million. All extensions of credit under the First Lien Revolving Credit Facility are collateralized by a first priority security interest in and lien upon substantially all present and future assets of the Borrowers (the “Prepetition First Liens”).

b. Second Lien Term Facility

29. On April 7, 2015, Katy, Continental, FWP, and FTW Holdings as borrowers (the “Second Lien Borrowers”) and non-Debtors Ontario and CCP Canada, as guarantors (the

“Second Lien Guarantors,” together with the Second Lien Borrowers, the “Second Lien Obligors”) entered into a *Second Lien Credit and Security Agreement* (the “Second Lien Term Credit Facility”) with Victory Park Management, LLC, as Agent (“VPC” or the “Second Lien Agent”), and VPC SBIC I, L.P. as lender (the “Second Lien Lender”). The proceeds of the Second Lien Term Credit Facility were used for, among other things, to acquire the Tiffin Plant from Centrex. The Second Lien Term Credit Facility originally provided for a \$24 million term loan, of which \$21 million was payable to the Second Lien Lender and \$3 million to Centrex.

30. By several subsequent amendments to the Second Lien Term Credit Facility, the principal amount of the loan was increased to \$31.5 million. Specifically, pursuant to Amendment No. 3, Amendment No. 4, and Amendment No. 6 to the Second Lien Term Credit Facility, dated July 22, 2016, August 11, 2016, and April 3, 2017, respectively, the Second Lien Agent extended the additional \$750,000, \$5.75 million, and \$1 million in term loans, respectively. Pursuant to Amendment No. 4, the Second Lien Lender also acquired an option to convert, in whole or in part, the outstanding principal amount of, and accrued but unpaid interest on, the then-existing term loans made pursuant to the Second Lien Term Credit Facility, into the common stock.⁴ All extensions of credit under the Second Lien Term Credit Facility are collateralized by a second priority security interest in and lien upon substantially all present and future assets of the Borrowers (the “Prepetition Second Liens”).

31. On November 16, 2016, the First Lien Agent and the Second Lien Agent entered into an Intercreditor and Subordination Agreement (the “Intercreditor Agreement”), which

⁴ As of August 11, 2016, the outstanding, but unpaid, amounts under the Second Lien Term Credit Agreement may be converted into up to 370,748,441 shares of common stock.

governs, among other things, the relevant priorities of the Prepetition First Liens and Prepetition Second Liens.

c. Payable Financing Agreement

32. The Debtors are party to a payables financing agreement (the “Payables Financing Agreement”) with Bank of Montreal (“BMO”), in connection with the Company’s sale of products to Lowe’s Companies Inc. and its affiliates (collectively, “Lowe’s”). Lowe’s is one of the Company’s largest customers, and the parties’ vendor sale agreements provide for payment terms of up to 90 days after delivery of products. Under the Payables Financing Agreement, in the ordinary course, the Company sells approximately 95% of its approved Lowe’s receivables (the “BMO Receivables”) to BMO, in exchange for immediate cash payments of the Company’s corresponding Lowe’s invoices, less the transaction fee. Upon those invoices becoming due, Lowe’s pays the full amount of the BMO Receivables to BMO. The Payables Financing Agreement is part of a program Lowe’s offers certain vendors as a form of “reverse factoring” that allows Lowe’s to extend its vendor payment terms and the Company to maintain steady cash flows.

d. Majestic Judgment

33. In 2016, Majestic-Norwalk, LLC, Norwalk Industrial I, LLC, and Norwalk Industrial Sub, LLC (collectively, the “Majestic”) commenced an arbitration proceeding against Katy and Continental for a breach of contract. On January 17, 2017, an arbitration award, in the amount of \$836,156.03 plus 10% interest and attorney’s fees and costs incurred by Majestic in connection with its petition to confirm the arbitration award, (the “Majestic Judgment”) was served on the parties and subsequently confirmed by the order of the Superior Court of the State of California for the County of Los Angeles. As of the Petition Date, the Majestic Judgment has not been satisfied or enforced.

e. Other Liabilities

34. The Company has over time sold assets of a number of business units and has a variety of legacy liabilities relating to them. The Company has been, and is, involved in remedial activities at certain present and former locations and has been identified by the United States Environmental Protection Agency, state environmental agencies, and private parties as potentially responsible parties at a number of hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act or equivalent state laws and, as such, may be liable for the cost of cleanup and other remedial activities at these sites.⁵

35. There are also a number of product liability, asbestos, and workers' compensation claims pending against the Company. Many of these claims are proceeding through the litigation process, and the final outcome will not be known until a settlement is reached with the claimant or the case is adjudicated. The Company estimates that it can take up to ten years from the date of the injury to reach a final outcome on certain claims. The ultimate cost of any individual claim can vary based upon, among other factors, the nature of the injury, the duration of the disability period, the length of the claim period, the jurisdiction of the claim, and the nature of the final outcome.

36. The Debtors have additional obligations with respect to their various defined-benefit retirement plans, with amounts principally owing to former employees. The Debtors may be liable for amounts by which such plans, if any, are underfunded, or for other direct payments due under such plans.

⁵ Certain of these legacy environmental remediation liabilities have been, or currently are, asserted by various environmental authorities but have not been acknowledged, consented to, or otherwise assumed by the Debtors.

III.
EVENTS LEADING TO THE
COMMENCEMENT OF THESE CHAPTER 11 CASES

37. In the first quarter of 2015, the Company moved its Bridgeton, Missouri, manufacturing facility (now known as the Jefferson City Plant) to Jefferson City, Missouri, as part of its efforts to save costs. The relocation, which was completed in December 2016, involved moving all manufacturing operations, including 22 molding presses, to the Jefferson City facility. The complexity of the relocation was underestimated. Significant production delays, outsourcing costs, increased maintenance, and less than full utilization of presses created operational inefficiencies. Indeed, unexpected machine downtime as a result of the needed machine repairs caused by the move and control software and mechanical component issues slowed the startup of presses and, thus, machine utilization, ultimately negatively impacting revenue. In addition, since the vast majority of the direct operators of the machinery did not join the Company after the move, the learning curve and ramp-up time for new hourly employees was greater than expected. These manufacturing dislocations led to liquidity constraints and other business challenges, which led to millions of dollars in lost revenue.

38. Following the failed plant relocation, which cost the Company millions of dollars, among other reasons, in October 2016, the Board of Directors of the Company terminated Mr. Feldman for cause after an independent committee of the Company's Board of Directors conducted an internal review of Mr. Feldman's performance.

39. Further, the synergies expected to be realized from the Tiffin Plant acquisition took longer than expected to realize, resulting in a lag of the anticipated profitability created for the Company. Prior to its acquisition, the Tiffin Plant was family owned and run as a closely held operation. After the purchase by Katy, the requisite systems and integration did not take place immediately. As a result, the profitability ramp took longer than anticipated, and the

Company had to expend significant resources to change the culture by onboarding and training operational labor force, developing manufacturing and process efficiencies, and implementing a culture focused on safety and continuous improvement. Finally, shortly after the acquisition, the Company rolled out a new product that met certain entry challenges, including, among other things, the Company's inability to manufacture sufficient quantities to meet the demand in a timely manner and meet its obligations with the customers, yielding significant penalties and fines from customers.

40. Both the losses associated with the Bridgeton facility relocation, and the substantial unrealized investments relating to the Tiffin facility acquisition, when combined with the Company's significant legacy liabilities, led to severely constricted liquidity available to the Company under its existing credit arrangements. Despite numerous efforts to seek alternative financing or investments during this time, the Company was unable to overcome these obstacles, leading to the filing of these chapter 11 cases.

IV. **MARKETING AND SALE PROCESS**

41. In light of the Debtors' need to consider various strategic alternatives, the Debtors engaged Lincoln International, Inc. ("Lincoln") on March 16, 2017, as their investment banker to conduct a comprehensive marketing and sale process. Following their engagement, Lincoln worked expeditiously with the Company to prepare a teaser, confidential information presentation, buyer list, and other related diligence materials. By mid-April 2017, however, the Company's liquidity forecast had been severely impacted by lower than anticipated sales, thereby dramatically shortening the liquidity runway for the sale process.

42. At approximately the same time, Lincoln was informed that the Stalking Horse Purchaser (defined below) was contemplating an acquisition of substantially all of the Debtors'

assets that would be conducted via a chapter 11 process and, to effectuate such a transaction, was also interested in providing debtor-in-possession financing to allow the Debtors to adequately market and sell their assets through chapter 11. In order to ascertain whether there were any other parties who would be interested in providing debtor in possession financing in conjunction with a potential acquisition, Lincoln immediately initiated discussions with 17 parties that could potentially move swiftly enough and have the investment flexibility to provide a competing junior debtor-in-possession financing proposal to that submitted by the Stalking Horse Purchaser. Of these parties, 13 executed confidentiality agreement, but none were able to provide the Debtors' with a competing proposal prior to the filing of these chapter 11 cases.

43. While conducting the accelerated process to ascertain whether an alternative debtor in possession lender and/or Stalking Horse Purchaser was viable, Lincoln finalized the sale process materials, and on May 4, 2017, formally launched the broader sale process with the distribution of Confidential Information Presentations to parties, primarily strategic in nature, who had previously executed confidentiality agreements and the distribution of a teaser to a broad range of private equity funds and other financial investors. As of May 12, 2017, Lincoln has approached a total of 154 parties, including strategic acquirers and financial acquirers with a demonstrated interest in the sector or investment strategy focused on companies undergoing operational transition and financial distress. Of these, 48 parties, including 14 strategic buyers and 34 financial buyers, executed confidentiality agreements.

44. As mentioned above, during this time, Lincoln and the Company's other advisors have been discussing a potential acquisition of the Company through a chapter 11 sale process by VPC, the Company's Second Lien Lender and Highview Capital, LLC, a third-party investor, that would contemplate consideration comprised of cash, assumed debt and liabilities, and the

credit bid of the outstanding amount owing under the Second Lien Term Credit Facility. Given the time constraints relating to the Company's fragile liquidity position, Lincoln also focused its efforts on assisting the Debtors' CRO, management, and counsel in negotiating the Stalking Horse Agreement and related bidding procedures in connection with the commencement of these chapter 11 cases.

45. The Debtors have determined, after extensive diligence and in consultation with their advisors and key stakeholders that maximizing the value of the Debtors' estates is best accomplished through the sale, free and clear of liabilities, of substantially all of their assets. Undertaking a sale of substantially all of the Debtors' assets represents the best available alternative for the Debtors to meet their immediate and ongoing liquidity needs, while continuing to operate in the ordinary course of business during this process for the benefit of the Debtors' customers, employees, vendors, and other stakeholders. To this end, the Debtors entered into an asset purchase agreement with Jansan Acquisition, LLC ("Jansan" or the "Stalking Horse Purchaser"), a newly created entity co-owned by Highview Capital, LLC, a third party investor and affiliates of Victory Park Management, LLC, as administrative agent for the Company's pre-petition second lien lender, comprised of both cash and credit bid, to be effectuated through a comprehensive marketing and competitive bidding process pursuant to section 363 of the Bankruptcy Code.

V.
RELIEF SOUGHT IN THE
DEBTORS' FIRST DAY MOTIONS

46. Contemporaneously with this Declaration, the Debtors have filed a number of First Day Motions⁶ in these chapter 11 cases, seeking orders granting various forms of relief

⁶ Capitalized terms used but not defined in this Declaration have the meanings ascribed to them in the relevant First Day Motions.

intended to stabilize the Debtors' business operations, facilitate the efficient administration of these chapter 11 cases, lessen the impact of these chapter 11 cases on the Company's day-to-day operations and employee morale, and pursue and successfully consummate the sale of substantially all of the Debtors' assets. In addition, the Debtors procured a \$7.5 million debtor-in-possession financing (the "DIP Facility") from Jansan (the "DIP Lender") to provide the Debtors with sufficient liquidity to operate their businesses in chapter 11 during the pendency of the sale process. I believe that the relief requested in the First Day Motions is necessary to avoid immediate and irreparable harm and allow the Debtors to operate with minimal disruption during the pendency of these chapter 11 cases. A description of the relief requested in and the facts supporting each of the First Day Motions is briefly set forth below:

A. Debtors' Motion for Entry of an Order Directing the Joint Administration of Their Chapter 11 Cases ("Joint Administration Motion")

45. In the Joint Administration Motion, the Debtors request entry of an order directing procedural consolidation and joint administration of these chapter 11 cases. Given the integrated nature of the Debtors' operations, joint administration of these chapter 11 cases will provide significant administrative convenience without harming the substantive rights of any party in interest. Indeed, many of the motions, hearings, and orders in these chapter 11 cases will affect each and every Debtor entity. For example, virtually all of the relief sought by the Debtors in the First Day Motions is sought on behalf of all of the Debtors. The entry of an order directing joint administration of these chapter 11 cases will lessen the administrative burden for the Court and will also reduce the fees and costs for the Debtors by avoiding duplicative filings and objections. Accordingly, on behalf of the Debtors, I respectfully submit that the Joint Administration Motion should be granted.

B. Debtors' Motion for an Order Extending the Deadline to File Schedules of Assets and Liabilities and Statements of Financial Affairs ("Schedules Extension Motion")

46. In the Schedules Extension Motion, the Debtors request entry of an order extending the deadline by which the Debtors must file Schedules and Statements of Financial Affairs ("SOFA") by approximately fifteen (15) days in addition to the extension provided by Local Rule 1007-1(b), for a total of approximately forty-five (45) days from the Petition Date. Given the scope and complexity of the Debtors' businesses, coupled with the limited time and resources available to the Debtors to marshal the required information, an extension of the deadline to file the Schedules and SOFAs is necessary to ensure that the Debtors are able to attend to and manage the operation of their businesses and transition smoothly into chapter 11, with an appropriate amount of "breathing room" to compile, review, and file the Schedules and SOFAs. This would be in the best interests of the Debtors, their estates, their creditors, and all parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Schedules Extension Motion should be granted.

C. Debtors' Motion for an Order Authorizing the Debtors to (A) File a Consolidated List of Creditors in Lieu of Submitting a Separate Mailing Matrix for Each Debtor and (B) Redact Certain Personal Identification Information for Individual Creditors (the "Consolidated Creditor Matrix Motion")

47. In the Consolidated Creditor Matrix Motion, the Debtors request entry of an order, authorizing them to file a single consolidated matrix of creditors in lieu of submitting a mailing matrix for each Debtor and authorizing the Debtors to redact certain personal identification information for individual creditors. It is my belief that the relief requested by the Debtors is warranted here. Given the size and scope of these chapter 11 cases and the number of the Debtors' creditors, segregating the Debtors' records to a specific creditor matrix format would be an unnecessarily burdensome task that would result in duplicate mailings and increased

cost. Further, the Debtors are concerned with the privacy of their individual creditors, including the Debtors' employees, because, if not redacted, the personal identification information would be provided on the Creditor Matrix, and such information could be used to perpetrate identity theft. Accordingly, on behalf of the Debtors, I respectfully submit that the Consolidated Creditor Matrix Motion should be granted.

D. Application for an Order Authorizing Retention and Appointment of JND Corporate Restructuring As Claims and Noticing Agent for the Debtors Pursuant to 28 U.S.C. § 156(c), *Nunc Pro Tunc* to the Petition Date (“Claims Agent Application”)

48. In the Claims Agent Application, the Debtors seek entry of an order appointing JND Corporate Restructuring (“JND”) as the claims and noticing agent for the Debtors in their chapter 11 cases, including assuming full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in these chapter 11 cases. Given the complexity of these chapter 11 cases and the number of creditors and other parties in interest involved, I believe that appointing JND (which was selected following the Debtors' competitive solicitation of three separate proposals for potential claims and noticing agents) as the notice and claims agent in these chapter 11 cases will maximize the value of the Debtors' estates for all its stakeholders. Accordingly, on behalf of the Debtors, I respectfully submit that the Claims Agent Application should be approved.

E. Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing the Continued Use of the Debtors' Cash Management System, (B) Authorizing Continued Transfers Among Debtors and Non-Debtor Affiliates, (C) Scheduling a Final Hearing on the Motion, and (D) Granting Related Relief (“Cash Management Motion”)

49. In the Cash Management Motion, the Debtors seek entry of an order authorizing the Debtors' continued use of their company-wide Cash Management System and approving continued transfers in the ordinary course of business between certain Debtors and certain non-

Debtor affiliate.

50. The Debtors' Cash Management System is comparable to the centralized cash management systems used by similarly situated companies to manage the cash of operating units in a cost-effective and efficient manner. The Debtors use the Cash Management System in the ordinary course of their businesses to collect, transfer, sweep, and disburse funds generated from their operations, manage cash flow to certain Debtors that do not generate their own, and to facilitate cash monitoring, forecasting, and reporting. The Debtors also maintain the Cash Management System to comply with the requirements of the First Lien Revolving Credit Facility and maintain daily oversight over the Cash Management System and have implemented cash management controls for entering, processing, and releasing funds, including in connection with the intercompany transactions. Additionally, the Debtors' corporate accounting department regularly reconciles the Debtors' books and records to ensure that all transfers are accounted for properly. I believe that the continuation of the Debtors' Cash Management System is essential to the Debtors' businesses, and that any disruption in the Debtors' use of the Cash Management System would severely disrupt, if not cripple, the Debtors' businesses and clash with the Debtors' cash management parameters under the First Lien Revolving Credit Facility.

51. In addition, in the ordinary course of business, certain Debtors and non-Debtor Foreign Affiliates engage in Intercompany Arrangements for purposes of supplying and distributing the Company's products on the U.S. and Canadian markets. Specifically, Continental supplies 97% of CCP Canada's inventory for CCP Canada's distribution on the Canadian market. CCP Canada directly invoices its customers in Canada. Continental invoices CCP Canada at approximately 10% over cost, but any amounts receivable on the books of Continental and any amounts payable on the books of CCP Canada are periodically written off

since CCP Canada's sale proceeds are ultimately transferred into the Debtors' Main Operating Account. Under a substantially identical process, FWP provides products to Continental at 8% profit. The operational synergies of the Debtors would be substantially diluted if the Debtors were not able to utilize the Intercompany Arrangements and, in fact, the distribution across Canada would come to a halt, which would jeopardize the Debtors' successful reorganization and the sale.

52. Based on the above, I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable the Debtors to continue to operate their businesses in chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Management Motion should be granted.

F. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Wages, Compensation, and Maintain and Continue Employee Benefits and Programs in the Ordinary Course; (II) Authorizing Banks to Honor and Process Checks and Transfers Related to Such Employee Obligations; and (III) Granting Related Relief ("Wages Motion")

53. In the Wages Motion, the Debtors seek entry of interim and final orders, among other things, authorizing the Debtors to pay certain prepetition wages and compensation as well as to maintain and continue employee benefits and programs in the ordinary course. The Debtors' workforce comprises of approximately 300 employees, located in St. Louis, Missouri, Jefferson City, Missouri, Fort Wayne, Indiana, and Tiffin, Ohio. The Debtors supplement their workforce with temporary employees, independent contractors, third-party sales representatives, and third-party logistical support. The Debtors' business depends on the skills and institutional and specialized knowledge of their workforce, and it is crucial to the Debtors' business operations and to their ability to successfully effectuate the sale and reorganize their operations

that their employment with the Debtors continue largely unaffected as a result of the filing of these chapter 11 cases.

54. Certain amounts due and owing to the Debtors' workforce remain outstanding as of the Petition Date because, among other things: (a) the Debtors commenced these chapter 11 cases in the midst of one of their payroll tracks, (b) checks previously issued on account of obligations owed to their workforce may not have been presented for payment or may not have cleared the banking system, (c) amounts related to prepetition services, while accrued in whole or in part, had not yet become due and payable by the Debtors, and (d) amounts deducted from employee's paychecks to make payments on behalf of the employees for or with respect to, for example, the Debtors' employee benefits programs or amounts due to third parties in connection therewith have not yet been remitted, and (e) withholdings from employee's paychecks on account of various federal, state, and local income taxes and other payments, employee programs, garnishments, and unemployment insurance have not yet been remitted.

55. The vast majority of employees and supplemental workforce rely in large part, if not exclusively, on their compensation and benefits to pay their daily living expenses and support their families and will be exposed to significant financial constraints if the Debtors are not permitted to continue paying compensation, provide employee benefits, and maintain existing programs. The Debtors seek to minimize the personal hardship their workforce would suffer if the Company obligations are not honored when due or as expected. Thus, the Debtors are seeking authority to pay and honor certain prepetition claims relating to, among other things, wages, salaries, expense reimbursements, and other compensation, payroll services, federal and state withholding taxes and other amounts withheld (including garnishments), health insurance, retirement benefits, paid time off, short-and long-term disability coverage, and other benefits that

the Debtors have historically directly or indirectly provided in the ordinary course of business and as further described in the Wages Motion.

56. I believe that the employees and supplemental workforce provide the Debtors with services critical to conduct the Debtors' business and that absent the payment of the employee compensation and benefits owed to them, the Debtors may experience employee turnover and instability at this critical time. Additionally, I understand that a significant portion of the value of the Debtors' business is tied to their workforce, which cannot be replaced without significant efforts—which efforts may not be successful given the overhang of these chapter 11 cases. I, therefore, believe that payment of certain prepetition obligations with respect to the employee compensation and benefits is a necessary and critical element of the Debtors' efforts to preserve value and will give the Debtors the greatest likelihood of retention of their employees as the Debtors seek to operate their businesses in these chapter 11 cases and to consummate the sale. Accordingly, on behalf of the Debtors, I respectfully submit that the Wages Motion should be granted.

G. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors' Proposed Form of Adequate Assurance of Payment, (II) Establishing Procedures for Resolving Objections by Utility Companies, (III) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Service, and (IV) Scheduling a Final Hearing ("Utilities Motion")

57. In the Utilities Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors' proposed form of adequate assurance of postpetition payment to the Utility Companies of a two-week deposit for each Utility Company, (b) approving procedures for resolving any objections by the Utility Companies relating to the Proposed Adequate Assurance, and (c) prohibiting the Utility Companies from altering, refusing, or discontinuing service to, or discriminating against, the Debtors solely on the basis of the commencement of these chapter 11

cases, a debt that is owed by the Debtors for services rendered prior to the Petition Date, or on account of any perceived inadequacy of the Debtors' Proposed Adequate Assurance.

58. In connection with the Debtors' business operations and management of their properties, the Debtors obtain, among other things, electricity, natural gas, water, sewer, trash collection, telecommunications, internet access, data hosting, and other similar services from a number of utility companies. On average, prior to the Petition Date, the Debtors spent approximately \$300,000 each month on account of Utility Services, calculated based on the Debtors' spend over the past four (4) month immediately prior to the Petition Date.

59. Preserving Utility Services on an uninterrupted basis, especially at their manufacturing facilities, is critical to the Debtors' ongoing operations and, therefore, to the successful effectuation of the sale and the entire reorganization. Indeed, any interruption in Utility Services, even for a brief period of time, would disrupt the Debtors' ability to continue operations. I believe this disruption would adversely impact customer relationships and result in a decline in the Debtors' revenues and profits. Such a result could seriously jeopardize the Debtors' reorganization efforts and, ultimately, value and creditor recoveries. It is critical, therefore, that Utility Services continue uninterrupted during these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Utilities Motion should be granted.

H. Debtors' Motion for Entry of an Interim and Final Orders Authorizing the Debtors to (A) Pay Prepetition Claims of Shippers, Warehousemen, and Other Lien Claimants and (B) Satisfy Customs Duties Imposed on Shipments from Foreign Suppliers ("Shippers and Warehousemen Motion")

60. In the Shippers and Warehousemen Motion, the Debtors seek authority to pay in the ordinary course of business certain undisputed, liquidated, prepetition amounts owing to certain Shippers, Warehousemen, and Other Lien Claimants as well as on account of certain

Customs Duties. I believe that the relief requested in the Shippers and Warehousemen Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable the Debtors to continue to operate their businesses in the ordinary course without disruption.

61. Because the Debtors depend on the timely delivery of Goods to their customers and the Shippers and Warehousemen may have physical custody over the Debtors' Goods, it is essential for the Debtors to incentivize their Shippers and Warehousemen to continue performing timely services and providing the Goods to the Debtors. If the Debtors are unable to obtain certain Goods that the Debtors' customers expect on a timely basis, the Debtors will either be unable to meet their customer commitments or otherwise be forced to seek out the same or similar Goods in the marketplace, on an emergency basis, subject to unknown costs and availability. Similarly, the Other Lien Claimants, such as mechanics, technicians, and repairmen, perform a number of services for the Debtors that are integral to the Debtors' ongoing business operations and successful sale process. In fact, many of the Other Lien Claimants provide specialty services or parts unique to the Debtors' machinery that cannot be easily replaced, could refuse to return repaired equipment or fulfill ongoing obligations to the Debtors—including critical maintenance, repair, and installation services. Any disruption in the maintenance and servicing of the Debtors' parts and machinery would result in immediate harm to the Debtors.

62. The value of the Goods, tools, and machinery in the possession of the Shippers, Warehousemen, and Other Lien Claimants, as the case may be, and the potential injury to the Debtors if they are not timely released are likely to exceed the amounts the Debtors are requesting to pay in the Shippers and Warehousemen Motion. Based on the above, I believe that it is necessary and essential to preserving the value of the Debtors' estates that the relief

requested in the Shippers and Warehousemen Motion be granted. Accordingly, on behalf of the Debtors, I respectfully submit that the Shippers and Warehousemen Motion should be granted.

I. Debtors' Motion for Entry of Interim and Final Orders (A) Authorizing the Debtors to Pay or Honor Prepetition Obligations to Certain Critical Vendors and (B) Granting Related Relief (the "Critical Vendor Motion")

63. In the Critical Vendor Motion, the Debtors seek authority to pay prepetition claims of certain critical vendors up to \$250,000 on an interim basis prior to the date of the final hearing on the Critical Vendor Motion and up to \$500,000 in the aggregate on a final basis.

64. As a manufacturer, importer, and distributor of commercial cleaning and storage products, and contract manufacturer of structural foam products, the Debtors' ongoing business is dependent upon their ability to timely fulfill orders from and provide prompt shipment of products to their customers which, in turn, is dependent upon continuous access to the goods and services that are essential to the production of the Debtors' products. The Debtors' Critical Vendors include vendors from various segments of the industry, such as certain customer-required suppliers, specific raw material suppliers, finished goods suppliers, custom packaging suppliers, and critical IT infrastructure services. In some cases, the Debtors anticipate that if they do not pay certain Critical Vendors that do not have long-term contracts with the Debtors, such Critical Vendors may outright refuse to continue to supply such goods postpetition or will be willing to only supply such goods at unfavorable prices for the Debtors in the future.

65. Accordingly, the Debtors need authority to pay, in their discretion, certain Critical Vendors to preserve the Debtors' value as a going concern while they pursue the sale of their assets. To ensure that the Debtors identify as Critical Vendors only those vendors and service providers that are actually critical to the Debtors' businesses, and who will refuse to, or who will demand pricing or trade terms that constitute an effective refusal to, provide goods or services if

not paid, certain of the Debtors' employees and professionals who are responsible for maintaining, and have intimate knowledge of, the Debtors' vendor and service provider relationships, have conducted, and will continue to conduct, an extensive analysis and review of the Debtors' immediate needs for goods and services, utilizing a robust criteria, described in detail in the Critical Vendor Motion. Further, the Debtors propose to retain authority to condition any payment to Critical Vendors on the agreement with individual Critical Vendors to continue supplying goods or services to the Debtors on trade terms that are the same or better than the trade terms that existed immediately prior to the Petition Date or to negotiate new trade terms.

66. Maintaining an unbroken supply chain is critical to the preservation of value in these chapter 11 cases. The need for the flexibility to pay such claims is particularly acute in the period immediately following the Petition Date. During this period, the Debtors, their attorneys and financial advisors, and their other professionals will be focusing on stabilizing operations, developing a long-term business plan, and working toward a sale of substantially all of the Debtors' assets. At this critical juncture, certain Critical Vendors could attempt to assert their leverage and halt the delivery of goods or services, suddenly and without notice, in an effort to cripple operations and coerce payment. Accordingly, on behalf of the Debtors, I respectfully submit that the Critical Vendor Motion should be granted.

J. Debtors' Motion for Entry of Interim and Final Orders Authorizing the Debtors to Continue Their Insurance Policies and Pay Prepetition and Postpetition Obligations in Respect Thereof ("Insurance Motion")

67. In the Insurance Motion, the Debtors seek entry of interim and final orders, authorizing them to continue their insurance policies, pay prepetition and ongoing ordinary course postpetition obligations in connection with such insurance policies, and continue to honor its obligations in connection with certain premium financing arrangements.

68. In the ordinary course of their businesses, through various Insurance Carriers, the Debtors maintain numerous Insurance Policies that provide coverage for, among other things, casualty liability, property damage, workers' compensation, umbrella/excess liability, environmental liability, self-insurance policies in the State of Missouri, and director and officer liability. The Insurance Policies are essential for the preservation of the Debtors' businesses and are, in some cases, required by various laws, regulations, or contracts that govern such businesses, including the requirements of the U.S. Trustee.

69. Further, prepayment of insurance premiums at inception may not always be economically advantageous as this reduces the Debtors' working capital. Therefore, the Debtors finance, and wish to continue to finance, certain of their insurance premiums through premium finance arrangements. Specifically, the Debtors utilize third-party lender IPFS Corporation ("IPFS") to finance the premiums associated with the Debtors' pollution liability policies and the majority of the Debtors' other Insurance Policies.

70. I believe that continuation and renewal of the Insurance Policies and related premium financing arrangements and entry into new insurance policies and premium financing agreements as well as the authority to continue paying claims that come due under the Missouri self-insured plan are essential to preserve the value of the Debtors' business, properties, and assets and are in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be granted.

K. Debtors' Motion for Entry of an Order Authorizing the Debtors to Pay Certain Prepetition Taxes ("Tax Motion")

71. In the Tax Motion, the Debtors seek authority to remit and pay certain taxes and

fees that accrued before the Petition Date and will become payable during the pendency of these cases in an amount not to exceed \$100,000, including for any amounts subsequently determined upon audit or otherwise to be owed for periods prior to the Petition Date.

72. In the ordinary course of business, the Debtors incur several types of taxes, including franchise and sales and use taxes, all as more fully described in the Tax Motion. The amount of franchise taxes the Debtors generally pay varies as franchise taxes are measured by net income, gross receipts, capital stock, or some other measure of value. The Debtors also incur sales and use taxes in connection with the operation of the Debtors' business and sale and distribution of products, paying approximately \$3,000 in an average month. While the Debtors' financial records indicate that the Debtors are substantially current on their payment of both sales and use taxes and franchise taxes, in an abundance of caution the Debtors request authority in the Tax Motion to pay any such taxes attributable to prepetition operations that may become due and owing during the pendency of these chapter 11 cases. I believe that the relief requested in the Tax Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Tax Motion should be granted.

L. Debtors' Motion for Interim and Final Orders Authorizing the Debtors to (I) Honor Certain Prepetition Obligations to Customers and (II) Continue Customer Programs in the Ordinary Course of Business ("Customer Programs Motion")

73. The Debtors request authority to (i) honor prepetition obligations to customers arising under customer-related programs, practices, and policies in the ordinary course of business and in a manner consistent with the Debtors' past practices and (ii) continue, renew, replace, implement, modify, or terminate any such customer programs, in each case, as the Debtors deem appropriate in their business judgment and in the ordinary course of business. To

maintain their reputations and loyal customer base as well as to support their local, regional, and national sales efforts, the Debtors, in the ordinary course of their business, maintain programs to drive sales, meet competitive pressures, build key relationships, and develop and sustain customer loyalty (the “Customer Programs”).

74. As part of their Customer Programs, the Debtors utilize various incentive programs to: (i) encourage their local and regional commercial distributors, who individually or combined with one another as a buying group, purchase goods from the Debtors to increase the volume of their orders through Commercial Volume Incentives; (ii) preserve the goodwill of the national and regional consumer chains by providing Retail Incentive Rebates; (iii) preserve the goodwill of individual end user customers such as industrial and food service companies that purchase the Debtors’ products for direct use in their own cleaning services and organization supplies by providing End User Rebate Incentives; (iv) compensate the national and regional consumer chains for non-conforming products supplied to them through the Charge Back Program; and (v) maintain the loyalty of, and favorable relationships with, the Debtors’ customers by providing limited product warranties.

75. Overall, the Customer Programs are calibrated to nurture customer loyalty and encourage customers to increase the volume of the products purchased on a period-over-period basis, all aimed at increasing Debtors’ profitability, ultimately benefiting the Debtors’ key stakeholders. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Customer Programs Motion should be granted.

M. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Superpriority Secured Debtor in Possession Financing, (II) Authorizing Postpetition Use of Cash Collateral, (III) Granting Adequate Protection to Prepetition Secured Parties, (IV) Scheduling a Final Hearing, and (V) Granting Related Relief ("DIP and Cash Collateral Motion Motion")

76. In the DIP and Cash Collateral Motion, the Debtors request entry of interim and final orders, among other things, authorizing the Debtors (i) to obtain postpetition financing in the form of a secured superpriority debtor in possession multiple-draw term loan in the aggregate principal amount of \$7.5 million, with up to \$4.5 million to be funded on an interim basis, with the DIP Liens being junior to the Prepetition First Liens and senior to the Prepetition Second Liens, and (ii) to use cash collateral.

77. The DIP Facility proceeds will be used for (i) general working capital and operational expenses, (ii) administration of these chapter 11 cases, (iii) certain professional fees; (iv) cash collateral for the benefit of the First Lien Agent to increase Availability from a negative amount to zero in accordance with the Interim Cash Collateral Order; and (v) costs, expenses, and all other payment amounts contemplated in the DIP Credit Agreement, in any such case, in accordance with the DIP Budget, subject to any Permitted Variance. The Debtors will not be obtaining credit under the First Lien Revolving Credit Facility and, instead, will be borrowing under the DIP Credit Agreement. The mechanism under the First Lien Revolving Credit Agreement will be preserved postpetition and periodically act as a measurement for additional adequate protection to be provided to the Prepetition First Lien Secured Parties in consideration of the First Lien Secured Parties' consent to Debtors' use of the First Lien Secured Parties' Cash Collateral.

78. In the ordinary course of business, the Debtors use cash on hand and cash flow from their operations to fund their liquidity needs and operate their businesses. In addition, the

Debtors require access to sufficient liquidity to fund these chapter 11 cases in order to successfully effectuate the sale. Postpetition financing and the use of cash collateral are necessary to provide the Debtors with sufficient liquidity to maintain ongoing day-to-day operations, ensure proper and timely fulfillment of customer orders, and fund working capital needs. Absent authority to use cash collateral and funds available under the postpetition financing, the Debtors would be forced to liquidate to the substantial detriment of all constituencies.

79. As mentioned above, in the months leading up to the Petition Date, the Debtors engaged Lincoln to provide investment banking services in connection with the Debtors' exploration of a range of strategic alternatives, including the potential sale of its assets, either together or in part, to financial or strategic acquirors. As described in detail in the *Declaration of Alexander Stevenson*, attached to the DIP and Cash Collateral Motion, while certain parties have expressed interest in the Debtors and may continue to proceed with the sale process, no parties emerged as a viable alternative to provide a debtor in possession financing. In consultation with the Debtors' professional advisors and based upon their discussions with potential lenders, it was determined that the Debtors would not be able to obtain any viable junior debtor in possession financing under the circumstances of the type and magnitude required on a materially more favorable economic basis than the economic terms of the DIP Facility, considering the circumstances, financial condition, inter-creditor issues, asset base, and projections of the Debtors and within the timeframe required.

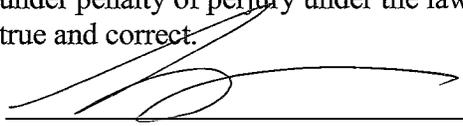
80. Following the marketing efforts, the Debtors reviewed and negotiated a proposed DIP Facility and, after carefully weighing both financial considerations as well as other relevant factors, I believe that the DIP Facility provided by the DIP Lenders represents the best overall

financing proposal to allow the Debtors to operate during the course of these chapter 11 cases. The proposed DIP Facility appears to be a vital component in preserving the value of the Debtors' going concern and allows the time necessary to seek higher and better offers for the Debtors' assets and, as such, is in the best interests of the Debtors' estates and creditors.

81. As noted above, the DIP Facility is the result of extensive arm's-length negotiations between the Debtors and their DIP Lenders related to the Debtors' liquidity issues, financing needs, and goals for these chapter 11 cases. Overall, I believe the DIP Facility to represent the Debtors' best alternative for post-petition financing on terms and conditions that I believe to be reasonable. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the DIP and Cash Collateral Motion should be granted.

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Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

By: 

Lawrence Perkins
Chief Restructuring Officer
Katy Industries, Inc.

Executed On: 5/14/17