

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2002 Commission file number 0-784

**DETREX CORPORATION**

(Exact name of registrant as specified in its charter)

<u>Michigan</u> (State or other jurisdiction of incorporation or organization)	<u>38-0480840</u> (I.R.S. Employer Identification No.)
<u>24901 Northwestern Hwy., Ste. 500, Southfield, MI</u> (Address of principal executive offices)	<u>48075</u> (Zip Code)
Registrant's telephone number, including area code	<u>(248) 358-5800</u>

Securities registered pursuant to section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
None	None

Securities registered pursuant to Section (g) of the Act:

Common Capital Stock, \$2 Par Value  
(Title of Class)

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 and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

As of August 14, 2002 1,583,414 shares of the registrant's stock were outstanding.

# DETREX CORPORATION

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**DETREX CORPORATION**

CONDENSED CONSOLIDATED BALANCE SHEETS

	UNAUDITED <u>June 30, 2002</u>	AUDITED <u>December 31, 2001</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 33,409	\$ 111,919
Accounts receivable (less allowance for uncollectible accounts of \$493,000 in 2002 and \$715,000 in 2001)	9,170,903	9,081,151
Note Receivable	544,558	--
Inventories:		
Raw materials	2,875,211	2,709,609
Work in process	--	56,103
Finished goods	<u>5,247,867</u>	<u>6,392,197</u>
Total Inventories	8,123,078	9,157,909
Prepaid expenses and other	660,173	834,688
Deferred income taxes	<u>2,587,724</u>	<u>2,690,493</u>
Total Current Assets	21,119,845	21,876,160
Land, buildings, and equipment-net	17,651,145	18,797,084
Property held for sale	2,818,818	2,818,818
Prepaid pensions	1,628,302	1,630,526
Deferred income taxes	3,983,744	4,155,059
Other assets	<u>460,599</u>	<u>480,839</u>
	<u>\$ 47,662,453</u>	<u>\$ 49,758,486</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Loans payable	\$ 9,192,016	\$ 8,366,792
Current portion of long-term debt	600,000	500,000
Current maturities of capital leases	104,843	111,553
Accounts payable	4,307,015	6,647,108
Environmental reserve	2,220,000	2,220,000
Accrued compensation	238,881	519,244
Other accruals	<u>2,863,342</u>	<u>3,015,516</u>
Total Current Liabilities	19,526,097	21,380,213
Long term portion of capital lease obligations	17,403	73,154
Long-term debt	1,800,000	2,400,000
Accrued postretirement benefits	3,681,019	3,561,019
Environmental reserve	5,900,220	6,275,223
Accrued pension and other	3,147,861	3,102,865
Minority interest	2,696,688	2,628,481
Stockholders' Equity:		
Common capital stock, \$2 par value, authorized 4,000,000 shares, outstanding 1,583,414 shares	3,166,828	3,166,828
Additional paid-in capital	22,020	22,020
Accumulated other comprehensive income	(1,836,501)	(1,836,501)
Retained earnings	<u>9,540,818</u>	<u>8,985,184</u>
Total Stockholders' Equity	<u>10,893,165</u>	<u>10,337,531</u>
	<u>\$ 47,662,453</u>	<u>\$ 49,758,486</u>

See Notes to Condensed Consolidated Unaudited Financial Statements

**DETRIX CORPORATION**

CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF  
OPERATIONS

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales	\$16,650,167	\$15,256,126	\$31,319,946	\$31,375,970
Cost of sales	12,631,512	11,565,773	23,690,111	23,874,168
Selling, general and administrative expenses	2,748,646	2,456,764	5,260,663	5,083,987
Provision for depreciation and amortization	780,022	839,202	1,546,928	1,690,202
Net loss from property transactions	--	--	2,848	--
Royalty income	(327,838)	--	(496,702)	--
Other income and deductions	(43,039)	5,750	(42,074)	8,638
Minority interest	64,570	69,665	98,205	141,199
Interest expense	<u>175,237</u>	<u>146,255</u>	<u>334,376</u>	<u>325,564</u>
Income from continuing operations before income taxes	621,057	172,717	925,591	252,212
Provision for income taxes	<u>248,449</u>	<u>101,913</u>	<u>370,306</u>	<u>98,535</u>
Net income from continuing operations	372,608	70,804	555,285	153,677
Loss from discontinued operations, net of taxes	--	<u>(608,503)</u>	--	<u>(939,590)</u>
Net income (loss)	<u>\$ 372,608</u>	<u>\$ (537,699)</u>	<u>\$ 555,285</u>	<u>\$ (785,913)</u>
Basic and diluted earnings (loss) per share:				
From continuing operations	\$ .24	\$ .04	\$ .35	\$ .10
From discontinued operations	\$ --	\$ (.38)	\$ --	\$ (.60)
Net Income (Loss)	<u>\$ .24</u>	<u>\$ (.34)</u>	<u>\$ .35</u>	<u>\$ (.50)</u>
Weighted average shares outstanding:				
Basic	1,583,414	1,583,414	1,583,414	1,583,414
Effects of dilutive stock options	--	--	--	--
Diluted	<u>1,583,414</u>	<u>1,583,414</u>	<u>1,583,414</u>	<u>1,583,414</u>

See Notes to Condensed Consolidated Unaudited Financial Statements

**DETREX CORPORATION**  
**CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF**  
**CASH FLOWS**

Six Months Ended

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
<b>Cash Flows from Operating Activities:</b>		
Net income/(loss)	\$ 555,285	\$ (785,913)
Adjustments to reconcile net income/(loss) to net cash provided by (used in)		
Operating activities:		
Loss from discontinued operations	--	939,590
Depreciation and amortization	1,546,928	1,690,202
Loss/(gain) on disposal of property	2,848	(3,959)
Deferred income taxes	274,084	(933,747)
Minority interest	68,207	111,199
Changes to operating assets and liabilities that provided (used) cash:		
Accounts receivable	(2,353,320)	229,029
Inventories	70,544	(444,724)
Prepaid expenses and other	177,829	145,827
Other assets	20,235	5,294
Accounts payable	(221,979)	1,566,504
Environmental reserve	(240,875)	(852,992)
Accrued compensation	(56,755)	(452,542)
Other accruals	452,740	410,334
Postretirement benefits	120,000	--
Total adjustments	<u>(139,514)</u>	<u>2,410,015</u>
Net cash provided by continuing operating activities	415,771	1,624,102
Net cash (used in) discontinued operating activities	<u>(1,385,853)</u>	<u>(749,224)</u>
Net cash (used in) provided by operating activities	<u>(970,082)</u>	<u>874,878</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	<u>(875,402)</u>	<u>(1,078,385)</u>
Net cash used in continuing investing activities	(875,402)	(1,078,385)
Net cash provided by (used in) discontinued investing activities	<u>1,504,211</u>	<u>(534,066)</u>
Net cash provided by (used in) investing activities	<u>628,809</u>	<u>(1,612,451)</u>
<b>Cash Flows from Financing Activities:</b>		
Net borrowings under revolving credit facility	825,224	1,464,710
Repayment of long term debt	(500,000)	(600,000)
Principal payments under capital lease obligations	<u>(62,461)</u>	<u>(99,729)</u>
Net cash provided by financing activities	<u>262,763</u>	<u>764,981</u>
Net (decrease) increase in cash and cash equivalents	(78,510)	27,408
Cash and cash equivalents at beginning of period	<u>111,919</u>	<u>363,829</u>
Cash and cash equivalents at end of period	<u>\$ 33,409</u>	<u>\$ 391,237</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$339,161	\$450,432
Income taxes	\$64,848	\$93,000
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Capital lease terminations	\$ 17,715	\$ -0-

See Notes to Condensed Consolidated Unaudited Financial Statements

## DETREX CORPORATION

### NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

1. In the opinion of the Company, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the results of operations for the periods presented. Certain amounts for 2001, including the presentation of the Company's former paint subsidiary and Parts Cleaning Technologies ("PCT") segments (See Notes 2 & 4) as discontinued operations, have been reclassified to conform with 2002 classifications. The information furnished for the three and six month periods may not be indicative of results to be expected for the full year.

2. Effective September 30, 2000, the Company completed the sale of the assets, excluding real estate, of its paint subsidiary to Red Spot Paint & Varnish Co., for \$11.1 million. The sale resulted in a net gain of \$2.6 million. The real property related to this discontinued segment is currently held for sale.

3. Under the terms of a Royalty Agreement between Detrex and Red Spot, Red Spot paid Detrex royalties of approximately \$459,000 in February, 2002 relating to incremental sales of certain products in 2001; this amount was recorded in royalty income in 2001. For the first half of 2002, the Company has recorded approximately \$497,000 in royalty income, approximately \$328,000 in the second quarter, for incremental sales of these certain products in 2002. The Company expects that additional income will be recorded during the remainder of 2002; the amount is dependent on automotive industry sales and the performance of the applicable products. The Royalty Agreement expires at the end of 2002, with receipt of the 2002 royalties due in February, 2003.

4. The Company announced an exit plan from its PCT segment in 2001, and in accordance with APB Opinion 30, has treated this segment as a discontinued operation for all periods presented. In the fourth quarter of 2001, the Company recorded a pre-tax charge to income of \$6.7 million to account for the exit. This charge included an addition of \$3.7 million to the environmental reserves to remediate owned and leased properties, \$2.0 million to write down certain assets to their estimated net realizable value, and \$1.0 million in net estimated future operating losses and exit costs. While the exit cost and environmental remediation estimates recorded in 2001 were based on the best available information at December 31, 2001, substantial uncertainties remain until the properties relating to this discontinued segment are remediated and disposed of. The estimate may be significantly impacted by the salability of real estate related thereto, and other factors. The Company spent approximately \$134,000 in the first half of 2002 on environmental matters relating to the PCT properties.

Significant activity has occurred in the first half of 2002 to effect the exit of the PCT segment. Effective June 1, 2002 the Company sold certain assets, including inventories, of its solvent distribution and waste business ("Solvents Division"), to the former president of that division, for a total of approximately \$845,000. The Company received \$300,000 at closing, and is holding a promissory note for the remainder, which is scheduled to be paid in installments before the end of 2002; one such installment for \$148,000 was received in July, 2002. The Company has retained the real properties related to this business, and the purchaser is leasing a number of properties on a short term basis. For those properties where there is no tenant, operations have been shut down, and regulatory closure is being pursued. In addition, on January 17, 2002 the Company consummated the sale of the Equipment Division (a business within the PCT segment) to Farr Manufacturing, which is located in Parkersburg, West Virginia. Under the terms of the transaction, the Company received \$1.2 million on January 17, 2002, and expects to receive an additional \$200,000 from Farr in the second half of 2002, for a total of \$1.4 million. A pre-tax loss of \$340,000 on the sale was included in the overall PCT exit charge in 2001.

The pre-tax loss from operations of the PCT segment in the first half of 2001 of approximately \$1,424,000 (\$922,000 in the second quarter of 2001) was reclassified to discontinued operations. During the first half of 2002, pre-tax operating losses for PCT totaling approximately \$622,000 (\$258,000 in the second quarter) were charged to the reserve for exit costs. This charge, in addition to severance payments, legal and other exit costs netted against proceeds from the sale resulted in approximately \$760,000 remaining in the reserve for future operating costs, carrying costs and other non-environmental exit costs.

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5. The Company and at least seventeen other companies are potentially responsible for sharing the costs in a proceeding to clean up contaminated sediments in the Fields Brook watershed in Ashtabula, Ohio. The Environmental Protection Agency ('EPA') issued a Record of Decision in 1986 concerning the methods it recommended using to accomplish this task. The Company and the other potentially responsible parties negotiated with the EPA as to how best to effect the clean up operation. After negotiation, an agreement was reached with the EPA on clean-up methodology. The clean-up is currently in progress and is expected to be completed by the 4th quarter of 2002.

The Company maintains a reserve for anticipated expenditures over the next several years in connection with remedial investigations, feasibility studies, remedial design, and remediation relating to the clean up of environmental contamination at several sites, including properties owned by the Company. Some of these studies have been completed; others are ongoing. In some cases, the methods of remediation remain to be agreed upon. The Company performs regular reviews of its reserves for environmental matters. The amounts of the reserve at June 30, 2002 and December 31, 2001 were \$8.1 million and \$8.5 million, respectively. The Company increased the reserve by approximately \$5.7 million at year end 2001. This action was taken to provide for \$3.7 million in estimated costs associated with the eventual closure of the sites operated by the PCT segment, including site investigation, engineering studies, remediation, and, in general, compliance with regulatory closure requirements, and \$2.0 million in costs primarily for the Fields Brook superfund project and associated sites, including the Company's own property in Ashtabula, Ohio. A portion of the increase to the reserve is anticipated to cover the completion of remediation and a risk transfer to third parties of ongoing liabilities associated with Fields Brook, allowing the Company to exit from the site. The reserve also includes provisions for costs that are expected to be incurred in connection with remediation of sites other than the Fields Brook watershed. In the first half of 2002, the Company charged approximately \$375,000 to the environmental reserves.

The Company expects to continue to incur professional fees, expenses and capital expenditures in connection with its environmental compliance efforts. In addition to the above, there are several other claims and lawsuits pending against the Company and its subsidiaries. One of those lawsuits involves the division of costs between several potentially responsible companies for reimbursement to the EPA for costs it incurred to conduct environmental remediation at a drum and barrel recycler, which the Company had utilized in the late 1980's. The potentially responsible companies entered into an agreement to, among other things, jointly defend the cost claims of the EPA. A dispute arose amongst the potentially responsible companies over the agreement which resulted in the filing of a lawsuit. The matter went to trial before a jury in June of 1999 and a judgment was entered against the Company in the amount of approximately \$750,000, plus interest and attorney fees. The Company took an appeal to the Michigan Court of Appeals, which affirmed the decision of the lower court. The Company has reserved for this judgment and is currently negotiating a resolution of its obligations with the opposing parties.

The amount of liability to the Company with respect to costs of remediation of contamination of the Fields Brook watershed and of other sites, including the discontinued PCT properties, and the amount of liability with respect to several other claims and lawsuits against the Company, were based on available data. The Company has established its reserves in accordance with its interpretation of the principles outlined in Statement of Financial Accounting Standards No. 5 and Securities and Exchange Commission Staff Accounting Bulletin No. 92. In the event that any additional accruals should be required in the future with respect to such matters, the amounts of such additional accruals could have a material impact on the results of operations to be reported for a specific accounting period and could have a material impact on the Company's consolidated financial position.

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6. The Company has two operating segments that meet the quantitative thresholds of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information":

- Harvel Plastics – manufacturer of high quality PVC and CVPC pipe and custom extrusions
- Elco Corporation – manufacturer of high performance specialty chemicals including lubricant additives, fine chemicals, and hydrochloric acid

See Note 4 regarding the Parts Cleaning Technologies exit.

Data for the three and six month periods ended June 30, 2002 and 2001 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales:				
Harvel Plastics	\$ 11,505,841	\$ 10,503,742	\$ 20,968,567	\$ 21,763,118
Elco Corporation	5,131,825	4,802,168	10,326,377	9,765,856
Other (includes intercompany eliminations)	<u>12,501</u>	<u>(49,784)</u>	<u>25,002</u>	<u>(153,004)</u>
Total	<u>\$ 16,650,167</u>	<u>\$ 15,256,126</u>	<u>\$ 31,319,946</u>	<u>\$ 31,375,970</u>
Earnings before income taxes:				
Harvel Plastics	701,543	756,657	1,066,979	1,533,606
Elco Corporation	571,611	274,726	1,242,782	576,587
Other	<u>12,502</u>	<u>12,501</u>	<u>25,002</u>	<u>25,001</u>
Sub-total	1,285,656	1,043,884	2,334,763	2,135,194
Royalty income	327,838		496,702	
Corporate administrative and other expense	(817,200)	(724,912)	(1,571,498)	(1,557,418)
Corporate interest expense	<u>(175,237)</u>	<u>(146,255)</u>	<u>(334,376)</u>	<u>(325,564)</u>
Total income from continuing operations before taxes	<u>\$ 621,057</u>	<u>\$ 172,717</u>	<u>\$ 925,591</u>	<u>\$ 252,212</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF INTERIM FINANCIAL INFORMATION

Results of Operations

Detrex Corporation and its consolidated subsidiaries (“the Company”) reported net income from continuing operations of \$372,608 during the second quarter of 2002, compared to net income from continuing operations of \$70,804 for the second quarter of 2001. For the first six months of 2002, the Company earned net income of \$555,285 from continuing operations, compared with net income from continuing operations of \$153,677 for the first half of 2001. Net sales of approximately \$16,650,000 in the second quarter of 2002 represented an increase of approximately \$1,394,000 over the same period in 2001, while sales for the first six months of 2002 were essentially the same compared to the same period a year ago. Royalty income of \$327,838 in the second quarter of 2002 and \$496,702 for the first six months of 2002 is from Red Spot Paint & Varnish, for incremental sales of certain products during those periods (See Note 3). No royalty income was earned in 2001 during the same period. The royalty agreement expires at the end of 2002, with receipt of the 2002 royalties due in February, 2003.

Summarized below is selected operating data for the three and six month periods ended June 30, 2002 and comparable data for the same periods last year (in thousands):

	Three Months Ended				Six Months Ended			
	June 30				June 30			
	2002		2001		2002		2001	
	\$	%	\$	%	\$	%	\$	%
Sales	16,650	100.00	15,256	100.0	31,320	100.00	31,376	100.0
Gross margin	4,019	24.1	3,690	24.2	7,630	24.4	7,502	23.9
Selling, general and administrative expenses	2,749	16.5	2,457	16.1	5,261	16.8	5,084	16.2
Depreciation and amortization	780	4.7	839	5.5	1,547	4.9	1,690	5.4
Net income from continuing operations	373	2.2	71	0.5	555	1.8	154	0.5

Sales increased \$1.4 million, or 9.1%, in the second quarter of 2002 compared to the same period in the prior year, as both of the Company’s business units exceeded the weak sales levels in the prior year period due to moderately improved market conditions. For the year to date period in 2002, sales levels are approximately the same as the prior year.

The gross margin of the Company increased by \$329,000 in the second quarter of 2002 compared to the same period in 2001, primarily due to the increased sales volumes. Margins as a percentage of sales declined from 24.2% in the second quarter of 2001 to 24.1% in the second quarter of 2002, as increases in resin costs at Harvel Plastics (“Harvel”) more than offset improvements in margin percentage at The Elco Corporation (“Elco”) resulting from a combination of lower raw material costs, changes in product mix and a modest volume increase.

Selling, general and administrative expenses increased by \$292,000 in the second quarter compared to the same quarter in 2001, primarily due to an increase in Elco’s bad debt provision related to a troubled international distributor, and to a lesser extent, increases in benefit costs and reduced pension credits at Harvel.

The provision for depreciation and amortization for both the second quarter and the year to date periods in 2002 is lower than in the comparable periods in 2001 as a result of lower provisions for the Elco production facility in Ashtabula, Ohio and asset write downs at the corporate office taken at the end of 2001.

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On a consolidated basis, interest expense in 2002 increased in the second quarter of 2002 compared to the same period of 2001, as the average outstanding balance on the revolving credit facility increased by approximately \$1.1 million compared to the same period in 2001.

The provision for income taxes was approximately 40% of the pre-tax income from continuing operations in 2002, comprised of 6% for state and local tax expense and the statutory 34% federal rate, compared to the overall year to date provision in 2001 of 39%.

#### Results of Operations – Segment Disclosure

Harvel's sales increased by \$1.0 million, or 9.5%, in the second quarter of 2002 compared to the same period in 2001, and increased approximately \$2.0 million over the first quarter of 2002, as demand in the commercial and industrial segments of the economy increased, although somewhat erratically. We believe that orders will continue to fluctuate during the second half of 2002, and are cautiously optimistic that revenues will increase over 2001 second half levels. Earnings declined in spite of the higher volume due to pressure on gross margins. Gross margins expressed as a percentage of sales decreased by 2.3 percentage points during the second quarter of 2002, compared to the same period in the prior year, primarily due to increased resin costs, and to a lesser extent, an increase in facility costs and a slight shift in product mix towards less profitable product lines. Resin costs have increased approximately 52% in the first half of this year, although the cost levels are expected to stabilize in the third quarter. Selling, general and administrative expenses increased slightly in the second quarter and the first six months of 2002, when compared to the same periods in 2001, as increases in health insurance costs and reduced pension credits were partially offset by lower sales expenses, primarily commissions.

Revenues at Elco increased by approximately \$329,000, or 6.5%, in the second quarter of 2002, and are up \$560,000 or 5.7%, for the six months ended June 30, 2002 compared to the respective periods in the prior year. Domestic additive sales have increased 10% in the year to date 2002, compared to the same period in the prior year, as new products and the development of new accounts with a direct sales force is starting to yield results. Export additive sales, while down 4% year to date compared to the same period in 2001, are beginning to stabilize, and the weakening of the dollar, if that continues and results in a more competitive pricing environment internationally, could be beneficial in the second half of the year. Margins improved significantly for both the quarter and year to date period, both when compared to the corresponding periods in the prior year, primarily due to continued lower raw material costs, improvements in product mix and a modest increase in volume. However, announced cost increases for certain raw materials could adversely impact margins in the second half of the year. Additionally, contractual arrangements with a large semiconductor grade acid customer have been altered to allow for greater volumes in exchange for lower prices. This is expected to have a slightly negative effect on margins during the remainder of the year. Selling, general and administrative expenses increased by approximately \$150,000 in the second quarter of 2002, compared to the same period in 2001, primarily due to approximately \$90,000 in provision for bad debts and legal fees for receivables relating to a financially troubled former international distributor. Additionally, personnel related costs increased by approximately \$50,000 in the second quarter of this year, when compared to the same period in 2001, due to a provision for performance based variable compensation and the addition of sales resources late in the second quarter in 2001.

#### Liquidity, Financial Condition, and Capital Resources

The Company utilized internally generated funds, the receipt of \$1.2 million from the sale of the Equipment Division (a business within the PCT segment), \$300,000 from the sale of certain assets of the Solvents Division (another business within the PCT segment; see Note 4) and increased borrowings of approximately \$826,000 under the revolving credit facility to finance the Company's overall operations, a \$500,000 reduction in long term debt, \$375,000 in environmental expenditures and approximately \$875,000 in capital expenditures in the first half of the year. Accounts payable were reduced by \$2.3 million during the first half of the year, as a result of the payment of \$1.1 million of environmental liabilities which were included in accounts payable at December 31, 2001; additionally, the buyer of the Equipment Division assumed approximately \$1.0 million in accounts payable of that

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division. Further reductions in accounts payable were achieved due to the wind down of the Solvents Division, whose operations were sold effective June 1, 2002.

Inventory balances were reduced by approximately \$1.0 million during the first half of the year; approximately \$550,000 relates to the sale of the Equipment Division, and the remainder relates to the inventory sold in the Solvents Division transaction. The increase of \$90,000 in accounts receivable during the first half of 2002 was due to increases at both Harvel and Elco totaling \$2.5 million, resulting from second quarter 2002 sales which were higher than sales during the fourth quarter of 2001; these increases were offset almost entirely by reductions due to the sale of accounts receivable relating to the Equipment Division and the liquidation of accounts receivable for the Solvents Division. The note receivable of \$545,000 relates to the sale of the business and certain assets of the Solvents Division. Working capital was \$1.6 million at June 30, 2002 compared to \$496,000 at December 31, 2001.

Long term debt was reduced by \$500,000 upon the scheduled principal payment on the Industrial Development Bonds in January, 2002.

The Company performs regular reviews of its reserves for environmental matters. The amounts of the reserves at June 30, 2002 and December 31, 2001 were \$8.1 million and \$8.5 million, respectively. In 2002, the Company expects to spend \$1.7 million for environmental matters and anticipates spending approximately \$2 million per year for the next two to three years. Approximately \$375,000 was charged to the environmental reserves in the first half of 2002. The Company believes that cash proceeds from sales of excess properties, in combination with cash generated by the remaining operating business units and increased borrowings, will be sufficient to fund the environmental requirements as well as provide for capital expenditures and other operating needs. The Company will be closely monitoring its cash situation, and will adjust its projected outlays on capital projects, and to the extent possible, environmental issues, as the situation demands.

#### Risks and Uncertainties

The Company has utilized the best available information to estimate its liability with respect to environmental issues. Cost estimates are reviewed periodically to assess changed conditions, and adjustments to recorded amounts are made if the changed conditions have a significant effect on cost estimates.

The Company recorded a \$5.7 million increase in its environmental reserves in 2001. Of this amount, \$3.7 million was recorded as part of the PCT exit costs for estimated closure costs and remediation of certain properties, and \$2.0 million related to continuing operations. These estimates were based on input from internal company sources and third party reviews of estimated costs for characterization, closure, remediation, and monitoring for each of the sites, and are believed to be sufficient. However, such estimates for remediation, as well as other environmental factors, could change significantly in future periods to reflect new laws, regulations or regulatory approaches, advances in remediation technologies, changes in remediation approaches, additional sites requiring remediation, or the discovery of additional contamination. It is not possible to determine whether additional loss, due to such changed circumstances, will occur or to reasonably estimate the amount or range of any potential additional loss.

#### Critical Accounting Estimates

The management of the Company has evaluated the accounting policies used in the preparation of the accompanying financial statements and related notes and believes those policies to be reasonable and appropriate. We believe that the most critical accounting policies applied in the preparation of our financial statements relate to accounting for contingencies, particularly environmental contingencies, outstanding litigation and the reserve for the PCT exit, and to accounting for pensions and other postretirement benefits, because of the significant use of estimates, and the importance of management's judgments relating to these estimates.

Contingencies require management to exercise judgment both in determining the likelihood that a liability exists, and then in estimating or quantifying the amount of the liability. The most important contingencies impacting our **DETREX CORPORATION**

financial statements are the environmental remediation, both PCT and non-PCT related, and outstanding litigation against the Company (See Note 5) and the reserve for the PCT exit (See Note 4). Management meets regularly to review such issues, and makes use of both internal and third party data to provide a basis for the estimates used to prepare the financial statements.

Accounting for pensions and other post retirement benefits involves estimating the cost of benefits to be provided in the future and attributing that cost over the time period each employee works. Significant estimates and assumptions are used in calculating these amounts, particularly as they relate to inflation, investment returns, salary increases, discount rate, employee turnover, trends in medical costs and mortality. The Company relies on the input of an actuarial firm to estimate the appropriate factors in determining the proper accounting for pensions and post-retirement benefits.

The amounts recorded in the accompanying financial statements related to environmental and litigation contingencies, the PCT exit reserve, and pension and post-retirement benefits, are based on the best estimates and judgments of the Company management, although actual results could differ from these estimates.

#### Other

Many of the statements included in this quarterly report on Form 10-Q (“quarterly report”), including the plan to exit PCT, that do not relate to present or historical conditions are “forward-looking statements” within the meaning of the private securities litigation reform act of 1995 (the “1995 reform act”). Additional oral or written forward looking statements may be made by or on behalf of the company from time to time and such statements may be included in documents other than this quarterly report. Such forward-looking statements involve a number of known and unknown risks and uncertainties. While these statements represent the company’s current judgment with respect to its business, such risks and uncertainties could cause actual results, performance and achievements, or industry results, to differ materially from those suggested herein. The company undertakes no obligation to release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Forward-looking statements in this quarterly report and elsewhere may include, without limitation, statements relating to the company’s plans, strategies, objectives, expectations, intentions and adequacy of resources. All forward-looking statements in this quarterly report and elsewhere are intended to be made pursuant to the safe harbor provisions of the 1995 reform act. Factors that could cause results to differ materially from those projected in the forward-looking statements include: market conditions, cooperation of lenders, environmental remediation costs, liquidation value of assets, costs to exit leased facilities, cost and availability of environmental liability insurance, marketability of real estate, availability of buyers, execution of projects in backlog, retention of key personnel and other factors.

## DETREX CORPORATION

### PART II - OTHER INFORMATION

#### Item 4 SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

(a) The 75<sup>th</sup> Annual Meeting of the Stockholders of Detrex Corporation was held in Southfield, Michigan on the 25<sup>th</sup> day of April 2002.

Election of Messrs. King and Zimmer as Directors of the First Class to hold office for three year terms or until their successors have been elected and qualify:

	<u>Mr. King</u>	<u>Mr. Zimmer</u>
For	1,146,392	1,174,517
Against	--	--
Abstain	300,062	271,937

Messrs. Cox, Emmett, Mark, McCleary, and Thalacker, continue as directors.  
Mr. Mangold declined to stand for re-election.

#### Item 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 99(a) – Sarbanes-Oxley Act Certification

**DETREX CORPORATION**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DETREX CORPORATION

Date 8/14/02

T. E. Mark  
T. E. Mark  
President and Chief Executive Officer

Date 8/14/02

S. J. Quinlan  
S. J. Quinlan  
Treasurer, Controller & Chief Accounting Officer