Detrex Corporation and Consolidated Subsidiary

2014 Annual Report

Detrex Corporation and Subsidiary
Contents

Highlights (1)

	2014	2013
Operations:		
Net sales from continuing operations	$ 40,755,269	$ 41,038,085
Environmental provision	1,000,000	-
Net income from continuing operations	1,285,627	2,599,748
Net income (2)	981,488	2,599,748
Earnings before Interest, Taxes and Depreciation (EBITDA) (3)	3,329,034	5,622,707
Per Diluted Common Share:		
Earnings per share:		
From continuing operations	0.74	1.51
From discontinued operations	(0.17)	-
Net earnings per share	0.57	1.51
Financial Position and Other Data:		
Total assets	23,997,644	30,163,024
Total bank debt	4,347,500	7,740,000
Total liabilities	13,713,811	15,811,536
Capital expenditures	685,627	1,464,396

(1) This information should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis.
(2) Net loss from discontinued operations of $0.3 million reflects the impact from the settlement of a claim by Harvel's buyer.
(3) EBITDA is from continuing operations.

DETREX COMPANY PROFILE

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation through its subsidiary (the Elco Corporation) manufactures chemical products predominantly for use in the industrial manufacturing markets. As discussed in various parts of this Annual Report, the sale of its Harvel Plastics subsidiary was effective at the beginning of business on January 1, 2012. The sale has enabled the Company to realize the significant value of Harvel and use the sale proceeds to support its remaining subsidiary's growth, reduce legacy liabilities, and return cash to shareholders.

- ***The Elco Corporation*** is a manufacturer of high performance specialty chemicals serving three distinct business areas, namely additives for industrial petroleum products, high purity hydrochloric acid for the semiconductor industry, and specialty chemicals. Elco's petroleum additives are used for enhancing the properties of hydraulic oils, metalworking fluids, gear oils, greases and fuels. The Ultramax® hydrochloric acid product line meets the most demanding semiconductor specifications, and Detrex hydrochloric acid is used in various applications such as pharmaceutical manufacturing. Elco's products are manufactured in Cleveland, Ohio and Ashtabula, Ohio and sold domestically through a direct sales force and globally through agents and distributors. Websites: www.elcocorp.com and www.detrexchemicals.com

TO OUR SHAREHOLDERS:

In 2014, our Company built upon the strategic actions that we implemented in the last few years. We expended significant resources to strengthen Elco's capabilities and develop market opportunities to grow globally. Partially offsetting the cost of this investment was a reduction in corporate expenses to adjust for the Company's reduced size and complexity. Environmental remediation issues were much reduced in scope compared to prior years as the result of the actions taken in 2013, and we revised estimates of the remaining liability based on new developments for the few remaining sites. We settled the Harvel sales transaction issues and collected escrow account funds. Cash from release of the escrow account, and other sources, resulted in a reduction in our loan balance, net of cash, to $2.7 million while we continued to pay $1.00 per share in annual dividends.

In 2014, Detrex generated income from continuing operations of $1.3 million, or $0.74 per fully diluted share, and net income of $1.0 million, or $0.57 per fully diluted share, after discontinued operations. This compares to 2013 income from continuing operations and net income of $2.6 million, or $1.51 per fully diluted share. Sales from the Company's sole subsidiary, The Elco Corporation, were $40.8 million in 2014 compared to $41.0 million in 2013.

The net sales for Elco did not change appreciably from 2013 to 2014; however, there was a substantial change in underlying mix. Baseline sales of Elco's diverse mix of products and customers increased in excess of six percent to compensate for an almost similar decline in sales for a product line that tends to fluctuate from month to month and remained consistently down for the year. The successful increase in baseline sales was achieved as the result of increased investments facilitated by the Harvel divestiture, including a significant commitment of resources in 2014. On the sales side we have made progress in export market channel development, most notably with our direct presence in China and in-roads in the India market. Our product development efforts resulted in the commercialization of several new formulations as well as ongoing product trials with several customers. Gross margins in 2014 were below year-ago levels as the result of product mix in combination with costs for improved manufacturing processes and techniques. Continued investments in sales and R&D efforts also resulted in increased overhead expenses. In addition, costs associated with regulatory compliance increased both manufacturing and overhead costs. In summary, Elco managed to achieve a baseline market share increase in excess of six percent to offset temporarily diminished sales in one product line while continuing to focus on strategically growing the business.

The Company made several strategic moves in the past few years which resulted in follow-up activities in 2014. The size of the Corporation and scope of its legacy liabilities have decreased significantly; in the second quarter of 2014, we reduced Board and Corporate compensation levels as well as other expenses to reflect these circumstances while maintaining the capability to pursue additional strategic opportunities. We also resolved a dispute on the Harvel sale; this resulted in the release of $2.1 million from the escrow and a related $0.3 million after-tax charge to discontinued operations. The Company's only environmental liability activities involved the sites that were not transferred in the 2013 transaction. An increase in the environmental reserve for the few retained sites was made as progress on these sites indicated the need for additional funds to complete their remediation. At year end, the environmental reserve for these sites was $2.0 million, of which approximately $700K is expected to be spent in 2015.

The Company's frozen defined benefit plans shifted to a $3.7 million underfunded position at the end of 2014 from a net overfunded position of $1.4 million at the end of the prior year. The two major factors in this reduction were reduced discount rates and modified actuarial mortality tables. The reduction in discount rates from 5.0 percent to 4.25 percent resulted in a $2.3 million increase in the liability, and actuarial tables, reflecting longer life spans, increased the liability by $2.9 million. The Company is not required to provide additional funding in the coming year.

At year end, the bank loan balance net of cash on hand was $2.7 million compared to the 2013 net loan balance of $6.5 million. Significant spending during 2014 included capital expenditures of $0.7 million, environmental spending of $0.9 million and dividend payments of $1.7 million.

In 2014, we built on the opportunities that the strategic actions of the past few years have provided and cleared up most of the details generated by these actions. The Company is streamlined and positioned for growth. We will continue to evaluate and embrace strategic opportunities to generate shareholder value and will keep you informed of our progress.

Thomas Mark
Chairman, President & CEO

Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Detrex Corporation and Consolidated Subsidiary

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Detrex Corporation and its subsidiary (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Detrex Corporation and its subsidiary at December 31, 2014 and 2013 and the consolidated results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 27, 2015

Detrex Corporation and Subsidiary
Consolidated Statements of Operations

	Year Ended December 31	
	2014	2013
Net Sales	$ 40,755,269	$ 41,038,085
Cost of sales (exclusive of depreciation)	28,960,713	26,956,820
Selling, general, and administrative expenses	7,477,392	8,468,205
Provision for depreciation and amortization	1,274,066	1,216,707
Provision for corporate environmental reserve	1,000,000	-
Other income - Net	(36,340)	(65,746)
Interest expense	169,050	140,960
Loss from asset disposals	24,470	56,099
Income Before Income Taxes	1,885,918	4,265,040
Provision for income taxes	600,291	1,665,292
Income from Continuing Operations	1,285,627	2,599,748
Discontinued Operations		
Loss from sale of Harvel Plastics, Inc. - Net of income tax	(304,139)	-
Net Income	**$ 981,488**	**$ 2,599,748**
Basic Earnings (Loss) Per Common Share:		
From continuing operations	$ 0.77	$ 1.55
From discontinued operations	(0.18)	-
Net earnings per share	**$ 0.59**	**$ 1.55**
Fully Diluted Earnings (Loss) Per Common Share:		
From continuing operations	$ 0.74	$ 1.51
From discontinued operations	(0.17)	-
Net earnings per share	**$ 0.57**	**$ 1.51**
Number of Shares Outstanding, basic	1,675,939	1,675,939
Number of Shares Outstanding, fully diluted	1,729,570	1,725,242

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiary
Consolidated Statements of Comprehensive Income

	Year Ended			
	December 31, 2014		December 31, 2013	
Net Income	$	981,488	$	2,599,748
Other Comprehensive (Loss) Income - Net of tax				
Defined benefit pension plans				
Net (loss) gain - net of tax of $2,006,729 in 2014 and ($1,019,180) in 2013		(3,726,781)		1,892,763
Reclassification of net periodic pension expense - net of tax of ($190,388) in 2014 and ($245,379) in 2013		353,577		455,703
Total defined benefit pension plans		(3,373,204)		2,348,466
Other Comprehensive (Loss) Income		(3,373,204)		2,348,466
Comprehensive (Loss) Income	**$**	**(2,391,716)**	**$**	**4,948,214**

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiary
Consolidated Balance Sheets

	December 31 2014		December 31 2013	
Assets				
Current Assets				
Cash and cash equivalents	$	1,778,331	$	1,206,544
Accounts receivable - Net of allowance for uncollectible accounts of $30,000 in 2014 and $25,000 in 2013		4,697,086		4,329,348
Inventories		5,445,137		5,326,478
Income taxes receivable		301,000		3,152,000
Prepaid expenses and other		391,017		212,207
Deferred income taxes		292,000		-
Sale proceeds held in escrow		-		2,550,000
Total Current Assets		12,904,571		16,776,577
Property and Equipment				
Land		51,509		51,509
Buildings and improvements		9,464,375		9,414,427
Machinery and equipment		18,610,946		18,293,140
Construction in progress		219,359		183,673
		28,346,189		27,942,749
Less allowance for depreciation and amortization		18,949,589		17,933,240
Property and Equipment - Net		9,396,600		10,009,509
Deferred Income Taxes		1,224,238		-
Pension Assets		-		2,798,640
Other Assets		472,235		578,298
Total Assets	**$**	**23,997,644**	**$**	**30,163,024**
Liabilities and Stockholders' Equity				
Current Liabilities				
Revolving credit facility	$	-	$	2,250,000
Current portion of long-term debt		1,230,000		880,000
Accounts payable		1,757,842		1,810,227
Current portion of environmental reserve		685,000		685,000
Deferred income taxes		-		408,000
Accrued compensation		302,349		604,260
Other accruals		1,659,134		1,565,001
Total Current Liabilities		5,634,325		8,202,488
Long-Term Debt, Net of current portion		3,117,500		4,610,000
Pension Obligations		3,666,314		1,403,321
Deferred Income Taxes		-		354,753
Environmental Reserve		1,295,672		1,240,974
Stockholders' Equity				
Common capital stock, $2 par value, authorized 4,000,000 shares, outstanding 1,675,939 shares		3,351,878		3,351,878
Additional paid-in capital		881,730		881,730
Retained earnings		17,423,809		18,118,260
Accumulated other comprehensive loss		(11,373,584)		(8,000,380)
Total Stockholders' Equity		10,283,833		14,351,488
Total Liabilities and Stockholders' Equity	**$**	**23,997,644**	**$**	**30,163,024**

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiary
Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance - January 1, 2013	$ 3,351,878	$ 935,108	$ 17,194,451	$(10,348,846)	$ 11,132,591
Net income	-	-	2,599,748	-	2,599,748
Other comprehensive income	-	-	-	2,348,466	2,348,466
Stock option redemptions	-	(70,800)	-	-	(70,800)
Excess tax benefit of stock compensation expense	-	17,422	-	-	17,422
Dividends	-	-	(1,675,939)	-	(1,675,939)
Balance - December 31, 2013	3,351,878	881,730	18,118,260	(8,000,380)	14,351,488
Net income	-	-	981,488	-	981,488
Other comprehensive loss	-	-	-	(3,373,204)	(3,373,204)
Dividends	-	-	(1,675,939)	-	(1,675,939)
Balance - December 31, 2014	**$ 3,351,878**	**$ 881,730**	**$ 17,423,809**	**$(11,373,584)**	**$ 10,283,833**

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Year Ended December 31	
	2014	2013
Cash Flows from Operating Activities		
Net income	$ 981,488	$ 2,599,748
Adjustments to reconcile net income to net cash from operating activities:		
Loss from discontinued operations	304,139	-
Depreciation and amortization	1,274,066	1,216,707
Loss on disposal of property and equipment	24,470	56,099
Provision for uncollectible receivables	5,000	-
Environmental reserve provision	1,000,000	-
Deferred income taxes	(276,641)	5,502,000
Pension benefit	(121,685)	(67,130)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(372,738)	177,911
Inventory	(118,659)	278,190
Income taxes receivable	2,851,000	(3,152,000)
Prepaid expenses and other	(72,747)	154,596
Accounts payable	(52,385)	(1,017,142)
Environmental reserves	(945,302)	(14,274,221)
Pension obligations	(6,227)	(1,672,660)
Accrued and other liabilities	(207,778)	(160,445)
Net cash provided by (used in) operating activities	4,266,001	(10,358,347)
Cash Flows from Investing Activities		
Purchase of property and equipment	(685,627)	(1,464,396)
Proceeds from disposition of property and equipment	-	14,700
Proceeds from sales of investments	-	3,037,134
Net cash (used in) provided by investing activities of continuing operations	(685,627)	1,587,438
Net cash provided by investing activities of discontinued operations	2,059,852	-
Net cash provided by investing activities	1,374,225	1,587,438
Cash Flows from Financing Activities		
Proceeds from revolving credit facility and long-term debt	1,950,000	12,500,000
Payments on revolving credit facility, long-term debt and capital lease obligations	(5,342,500)	(4,803,913)
Stock option redemptions	-	(70,800)
Excess tax benefit of stock compensation expense	-	17,422
Dividends paid	(1,675,939)	(1,675,939)
Net cash (used in) provided by financing activities	(5,068,439)	5,966,770
Net Increase (Decrease) in Cash and Cash Equivalents	571,787	(2,804,139)
Cash and Cash Equivalents - Beginning of year	1,206,544	4,010,683
Cash and Cash Equivalents - End of year	**$ 1,778,331**	**$ 1,206,544**
Supplemental Cash Flow Information - Cash paid (collected) during the year for		
Interest	$ 175,138	$ 129,834
Income taxes	(1,960,017)	(642,739)

Detrex Corporation and Subsidiary
Notes to Consolidated Financial Statements

Note 1 - Nature of Business and Customer Concentration

Detrex Corporation (the "Company") and through its wholly owned subsidiary, The Elco Corporation (Elco), manufacture specialty chemicals including petroleum additives and high purity hydrochloric acid.

The Company sold its Harvel subsidiary to an unrelated party, effective at the beginning of business on January 1, 2012. The sale was completed on January 6, 2012 for cash, including a holdback of a cash escrow. Harvel's buyer made a claim against the Company in 2013 for approximately $4.7 million. The claim was settled during 2014 resulting in a loss of $304,139, net of income tax of $186,009. The loss is reported in the accompanying 2014 consolidated statement of operations as discontinued operations.

The Elco business operates in highly competitive markets which are mainly national in scope, although approximately 26 percent of the Company's total net revenue in 2014 and 2013 was generated outside the United States. For all manufactured products there are numerous competitors, with only a small number of companies being dominant. The Company operates in niche markets and its principal methods of competition in various markets include service, price and quality. Elco sells primarily to petro chemical and industrial manufacturing companies.

Sales to Elco's five largest customers totaled approximately 29 percent of the Company's consolidated revenues in 2014 and 37 percent in 2013; the loss of one or more of these significant customers could materially adversely impact operating results. Accounts receivable from those customers were approximately $850,000 and $1.1 million at December 31, 2014 and 2013, respectively.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidated Financial Statements

The consolidated financial statements comprise those of the Company and its subsidiary. All intercompany balances and transactions have been eliminated.

The Company follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure consistency in reporting financial condition, results of operations, and cash flows.

Cash and Cash Equivalents

The Company considers all investments with a maturity at purchase of three months or less to be cash equivalents.

Investments

The Company funds a nonqualified deferred compensation obligation with publicly traded fixed income and equity mutual funds that are carried at fair value as current and noncurrent assets (in prepaid expenses and other assets). The fair value of the investments used to fund the deferred compensation obligation amounted to $569,000 and $480,000 at December 31, 2014 and 2013, respectively. The Company recorded income before income taxes on the investments of $43,000 in 2014 and $60,000 in 2013. See Note 6 for a description of the fair value on the investments.

Accounts Receivable

Trade accounts receivable are stated at cost, less an allowance for doubtful accounts. The allowance is established based on a specific assessment of all invoices that remain unpaid following the normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that such determination is made.

Inventories and Revenue Recognition

Finished goods inventories are stated at lower of cost or market. Raw materials, including raw materials in work in progress and finished goods inventories, are valued by using the first-in, first-out (FIFO) method. Labor and burden in inventory are determined by using the average cost method, which approximates FIFO.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue and related cost of sales are recognized when title transfers, which is generally upon shipment of products.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and impairment charges. Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method for financial reporting purposes.

	Annual Depreciation Rates
Buildings and improvements	2.5-20%
Machinery and equipment	5-33%

Operating Leases

Rent expense charged to operations applicable to operating leases, primarily for facility and equipment rental, approximated $140,000 for 2014 and $145,000 for 2013.

Research and Development

Research and development costs are charged to operations as incurred, and approximated $705,000 for 2014 and $638,000 for 2013.

Earnings Per Common Share

The calculation of basic earnings per common share is based upon the average number of common shares outstanding during the year. Shares subject to in-the-money stock options are the only items impacting diluted earnings per share. At December 31, 2014 and 2013, all outstanding options were vested and were in-the-money; the potential dilution was 53,631 shares in 2014 and 49,303 shares in 2013 and resulted in a two cent and four cent per share dilution of earnings per share for net income attributable to Detrex Corporation in 2014 and 2013, respectively.

Other Comprehensive Income (Loss)

Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as amounts recognized related to defined benefit pension plans (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the stockholders' equity section of the consolidated balance sheet. Such items, along with net income (loss), are considered components of comprehensive income (loss).

Income Taxes

A current tax liability or asset is recognized for the estimated taxes payable to or refundable from tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

The Company files a consolidated federal income tax return with its subsidiary. Current and deferred tax obligations or benefits are allocated to the members of the consolidated group as if each were a separate taxpayer. The Company participates in an arrangement with its subsidiary under which payments are made to, or amounts are received from, the subsidiary based on the subsidiary’s share of the consolidated group’s federal income tax liability.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximated fair value due to their short maturities. The carrying values of investments are based on quoted market values. The carrying value for debt under the Credit Agreement approximated fair value due to interest rates which reflect market rates. See Note 6 for further discussion of fair value measurements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Also see Note 9 concerning environmental matters.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 27, 2015, which is the date the consolidated financial statements were available to be issued.

Note 3 - Inventories

Inventories from continuing operations at December 31 consist of the following:

	2014	2013
Raw materials	$ 1,836,648	$ 1,357,813
Finished goods	3,608,489	3,968,665
Total inventory	$ 5,445,137	$ 5,326,478

Note 4 - Revolving Credit Agreement and Long-Term Debt

During 2014, the Company amended its revolving credit and long-term financing arrangement with its principal lender, JPMorgan Chase Bank, N.A. ("Chase"). The amended agreement provides a $10 million long-term credit facility and a $5 million revolving credit facility to finance short-term financing needs and to fund letters of credit issued by the lender. Outstanding letters of credit at December 31, 2014 amounted to $106,000 and expire at various dates in 2015. At December 31, 2014, total outstanding indebtedness amounted to $4,347,500, of which $1,230,000 is due currently and the remaining $3,117,500 is due in 2016. The credit facilities for the revolver charge interest at 0.75 percent below the bank's prime lending rate and the credit facilities for the long-term debt charge interest at LIBOR plus 2.25 percent (actual borrowing rate of 2.50 percent at December 31, 2014 for both). The weighted average interest rate for all borrowings for the year ended December 31, 2014 was approximately 2.60 percent. Borrowings under the credit agreement are subject to certain covenants covering minimum required levels of tangible net worth, minimum fixed interest charge, and maximum leverage ratios.

The obligations under the credit facility are collateralized by substantially all Company assets. Interest expense totaled $169,000 for 2014 and $141,000 in 2013.

Detrex Corporation and Subsidiary
Notes to Consolidated Financial Statements

Note 5 - Income Taxes

Income taxes (recovery) from continuing operations include the following components:

	2014	2013
Current:		
Federal	$ 385,947	$ (3,564,350)
State and local	64,468	(272,358)
Total current	450,415	(3,836,708)
Deferred:		
Federal	133,875	5,467,000
State and local	16,001	35,000
Total deferred	149,876	5,502,000
Total provision for income taxes	$ 600,291	$ 1,665,292

An income tax benefit from discontinued operations totaled $186,009 for 2014, of which $426,516 was current income tax expense and $612,525 was deferred income tax recovery.

Deferred tax assets (liabilities) at December 31, 2014 and 2013 relate to the following temporary differences and carryforwards:

	2014	2013
Deferred tax assets:		
Environmental	$ 658,235	$ 623,812
Pension benefits	1,283,210	-
Inventory related	56,028	43,641
Alternative minimum tax credit carryforward	1,054,915	1,095,036
Other	292,488	367,171
Gross deferred tax assets	3,344,876	2,129,660
Deferred gain	-	(649,009)
Pension benefits	-	(390,914)
Property and depreciation	(1,744,139)	(1,755,717)
Other	(84,499)	(96,773)
Gross deferred tax liabilities	(1,828,638)	(2,892,413)
Net deferred tax asset (liability)	$ 1,516,238	$ (762,753)

During 2013, due principally to the income tax deduction of environmental obligation payments, the Company incurred a net operating loss (NOL) for tax purposes of $13.3 million. All of the NOL was carried back which resulted in income tax refunds of $3.2 million.

Note 5 - Income Taxes (Continued)

The principal differences between the actual income tax provision from continuing operations and income taxes computed at the statutory rate of 34 percent are as follows:

	2014	2013
Expected tax provision	$ 641,212	$ 1,450,114
State and local income taxes - Net of federal tax benefit	29,029	(156,657)
Manufacturing tax benefits	(144,146)	-
Research and development tax credit	(27,844)	-
Loss of manufacturing tax benefits due to NOL carryback	-	108,329
Nondeductible expenses and adjustment to prior year estimate - Net	102,040	263,506
Actual income tax provision	$ 600,291	$ 1,665,292

Under FASB ASC Topic 740, *Income Taxes*, the Company may recognize tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The more likely than not threshold must continue to be met in each reporting period to support continued recognition of a tax benefit. Topic 740 also provides guidance on classification, interest, and penalties on income taxes, accounting in interim periods, and disclosures. The Company files income tax returns in multiple jurisdictions in the United States. The consolidated federal income tax returns have been examined and closed by the Internal Revenue Service through the 2005 tax year. With few exceptions, the Company is no longer subject to income tax examinations before 2011.

Note 6 - Fair Value Measurements

The following section discusses information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2014 and 2013 and the techniques used by the Company to determine those fair values in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Disclosures also apply to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. Topic 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs; the Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology (Level 1 inputs) applies to the Company's investment accounts, which consist of mutual funds totaling approximately $569,000 at December 31, 2014 and $480,000 at December 31, 2013, classified as follows on the consolidated balance sheet:

	2014	2013
Other assets (current assets)	$ 190,000	$ -
Other assets (noncurrent assets)	379,000	480,000
Total	$ 569,000	$ 480,000

The Company had no financial assets valued using Level 2 or Level 3 inputs during 2014 or 2013.

Note 6 - Fair Value Measurements (Continued)

See Note 8 for discussion of the fair value of the pension plan assets.

Note 7 - Parts Cleaning Technologies Exit

The Company exited its Parts Cleaning Technologies ("PCT") segment in 2001-2002. Properties relating to this discontinued segment consisted of real estate at two separate locations and were classified as other noncurrent assets, as they were remediated and prepared for ultimate disposition. During 2013, the Company transferred its PCT properties with an agreed-upon value of $200,000 as partial consideration for the environmental liability transfer discussed in Note 9.

Note 8 - Pension and Other Postretirement Benefit Plans

The Company and its subsidiary sponsor non-contributory, defined benefit pension plans which cover substantially all employees. The plans were frozen during 2009 and 2010. Benefits for employee participants were based on years of services prior to the freeze date and the employee's average monthly compensation using the highest five consecutive years preceding retirement. These benefits were generally based on a specified monthly payment for each year of service prior to the freeze date. Accordingly, no benefits accrued to plan participants after the respective freeze dates.

The Company's funding policy is to contribute amounts sufficient to provide for benefits earned to date and those expected to be payable in the future. The Company's contributions to the plans totaled $6,000 in 2014 and $1,673,000 in 2013.

The goals of the investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Company, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures payment of retirement benefits.

The Company’s pension plan investment allocation target and actual investment allocation at December 31, by investment category, as a percentage of total investments, are as follows:

		Actual Allocation	
	Target Range	2014	2013
Equity securities	40-70%	48.2 %	72.1 %
Debt securities	30-50%	51.0 %	20.9 %
Cash equivalents	0-10%	0.8 %	7.0 %
Total	100.0 %	100.0 %	100.0 %

Equity securities primarily include investments in large, mid and small cap companies (both U.S. and international). Fixed income securities include corporate bonds of companies from diversified industries (both U.S. and international), mortgage-backed securities, and U.S. Treasuries.

Detrex Corporation and Subsidiary
Notes to Consolidated Financial Statements

Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

The fair value of plan assets by category is as follows:

	Fair Value Measurements at December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Cash equivalents	$ 217,330	$ -	$ 217,330	$ -
Mutual funds institutional equity (a)	9,350,323	9,350,323	-	-
Mutual funds institutional international equity (b)	5,475,357	5,475,357	-	-
Mutual funds institutional fixed income (f)	15,685,883	15,685,883	-	-
Total	$ 30,728,893	$ 30,511,563	$ 217,330	$ -

	Fair Value Measurements at December 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Cash equivalents	$ 2,194,620	$ -	$ 2,194,620	$ -
Mutual funds institutional equity (a)	10,477,063	10,477,063	-	-
Mutual funds institutional international equity (b)	6,650,994	6,650,994	-	-
Exchange traded funds equity (c)	2,700,639	2,700,639	-	-
Exchange traded funds international equity (d)	2,839,639	2,839,639	-	-
Exchange traded funds fixed income (e)	671,759	671,759	-	-
Mutual funds institutional fixed income (f)	5,622,188	5,622,188	-	-
Annuity contracts	259,250	-	259,250	-
Total	$ 31,416,152	$ 28,962,282	$ 2,453,870	$ -

(a) Includes large cap issues focused on managed volatility and small and midcap issues

(b) Invests in developed and emerging markets non-U.S. equity funds

(c) Investments consist primarily of ETFs of large cap growth and value issues, small and mid cap issues, and commodity based issues

(d) Invests in the MCSI Index for emerging markets issues

(e) Invests in indexes; U.S. Treasuries, non U.S. bonds, and other

Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

(f) Invests primarily in U.S. Treasuries, high yield bond funds, and international developed and emerging markets global corporate bond funds

The Company's pension plans expect to pay the following for pension benefits in the next 10 years:

Year Ending December 31	Amount
2015	$ 2,090,234
2016	2,096,900
2017	2,046,927
2018	2,262,089
2019	2,286,822
2020-2024	11,342,571

Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

The following tables set forth the information required under FASB ASC 715, *Retirement Benefits*:

	2014	2013
Change in Projected Benefit Obligation		
Benefit obligation at January 1	$ 30,020,833	$ 32,785,667
Interest cost	1,446,193	1,345,817
Actuarial loss	36,134	7,579
Benefits paid in measurement year	(2,316,868)	(1,869,501)
Change in discount rate assumption	2,261,822	(2,248,729)
Change in mortality assumption	2,947,093	-
Benefit obligation at December 31	$ 34,395,207	$ 30,020,833
Change in Plan Assets		
Fair value of assets at January 1	$ 31,416,152	$ 28,828,170
Actual return on assets	1,623,382	2,784,823
Contributions	6,227	1,672,660
Benefits paid in measurement year	(2,316,868)	(1,869,501)
Fair value of assets at December 31	$ 30,728,893	$ 31,416,152
Funded Status as of December 31	$ (3,666,314)	$ 1,395,319
Presentation on Consolidated Balance Sheet		
Non-current pension asset	$ -	$ 2,798,640
Non-current pension obligation	$ (3,666,314)	$ (1,403,321)
Items Not Yet Recognized as a Component of Net Periodic Pension Cost - Unrecognized net loss	$ 17,497,822	$ 12,308,276
Net Periodic Pension Cost		
Interest cost	$ 1,446,193	$ 1,345,817
Expected return on assets	(2,270,974)	(2,114,029)
Net amortization	543,965	701,082
Settlement loss	159,131	-
Net periodic pension cost (benefit)	$ (121,685)	$ (67,130)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Asset investment loss (gain)	$ 647,593	$ (670,794)
Change in discount rate assumption	2,261,822	(2,248,729)
Change in mortality assumption	2,947,093	-
Settlement loss	(159,131)	-
Amortization of net loss	(543,965)	(701,082)
Experience loss	36,134	7,579
Total recognized in other comprehensive income	$ 5,189,546	$ (3,613,026)
Total recognized in net period benefit cost and other comprehensive income	$ 5,067,861	$ (3,680,156)

Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

At December 31, 2014, the Company-sponsored pension plans were underfunded in total by $1,948,278 and the supplemental employee retirement plans (SERPs) were underfunded by $1,718,036. At December 31, 2013, the pension plans were overfunded in the amount of $2,798,640 and the SERPs were underfunded by $1,403,321. The overfunded pensions are reported as a non-current pension asset and the underfunded plans are reported as a non-current pension obligation.

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2015 is $859,000.

The actuarial assumptions used to determine the benefit obligations at December 31 are as follows:

	2014	2013
Discount rate	4.25 %	5.00 %
Expected rate of return on plan assets	7.50 %	7.50 %

The actuarial assumptions used to determine net periodic pension cost for the years ended December 31 are as follows:

	2014	2013
Discount rate	5.00 %	4.25 %
Expected rate of return on plan assets	7.50 %	7.50 %

The overall expected long-term rate of return on plan assets represents a weighted average composite rate based on the historical rates of return of the respective asset classes adjusted for anticipated future market movements and investment trends.

Summary information and status of pension plans is as follows (amount in millions):

	2014	2013
Projected benefit obligation	$ 34.4	$ 30.0
Accumulated obligation	34.4	30.0
Fair value of plan assets	30.7	31.4

The Company contributed $1,672,660 in 2013 to its pension plans from continuing operations. The pension investment portfolios realized a net gain of 6 percent in 2014 and a net gain of 10 percent in 2013. In 2014, the plans decreased the discount rate by .75 percent from 5.0 percent to 4.25 percent. The plan increased the discount rate by .75 percent in 2013. The pension funding changes in 2014 and 2013 include the investment results and contributions made coupled with the changes in the plans' discount rates in 2014 and 2013. During 2014, the plans changed actuarial mortality assumptions by adopting updated mortality tables promulgated by the Society of Actuaries. The actuarial mortality assumption change materially increased the Company's projected benefit obligation (and increased the plan's net underfunding) at December 31, 2014 by $2.95 million.

The Company estimates, based on preliminary estimates from its actuary, 2015 consolidated pension expense from continuing operations of $297,000 compared to a $122,000 pension credit in 2014. The Company is not required to make pension contributions during 2015. In future years, assuming a constant discount rate, if actual rates of return on the pension portfolio exceed the expected 7.5 percent rate of return, contribution levels and expense could decline; if actual investment returns are less than expected, required contributions and expense could increase. Assuming a constant rate of return, if the discount rate rises, future contributions and expense would decline; if the discount rate declines, contributions and expense would rise.

Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

401(k)

The Company sponsors a 401(k) defined contribution plan covering its salaried employees. Employees can contribute up to 100 percent of their salaries. The Company is committed to contribute 3 percent of eligible participant wages into the 401(k) plan under its Safe Harbor Employer Contribution Program. Total contributions approximated $185,000 in 2014 and $178,000 in 2013.

Note 9 - Contingencies and Environmental Matters

The Company records financial reserves for anticipated future expenditures to conduct investigations, feasibility studies, remedial design, and remediation relating to the cleanup of environmental contamination at various properties that the Company has currently or in the past either owned or leased. Company management conducts regular reviews to determine the appropriateness of environmental financial provisions in its financial statements.

As a result of an extensive study the Company commissioned to independent environmental consultants, the Company negotiated with an independent organization (the Acquirer) to sell or assign 20 sites that were previously owned, leased, or operated by the Company. In June 2013, the parties executed an agreement to transfer the obligation and responsibility for all environmental matters on the 20 sites. Five of these properties were owned by the Company. The consideration paid by the Company to the Acquirer included a cash payment of approximately $12.9 million and the transfer of the five real estate parcels which had a carrying value of approximately $800,000. There was also a one-time insurance premium of $636,000 paid to cover third-party liability. Under terms of the liability transfer agreement, the Acquirer deposited approximately $11 million of the Company's payment into an escrow account from which future environmental clean-up and other defined costs incurred by the Acquirer on the various sites would be paid. The Acquirer is also required to deposit net proceeds from the sale of the five properties acquired from Detrex into the escrow account. The unspent escrowed funds will not be released until certain defined environmental clean-up milestones are achieved on all active sites. However, all of the financial burdens and future costs and profits associated with the transferred sites are vested solely with the Acquirer. While the Acquirer provided financial security for performance under the liability transfer agreement, the federal and state environmental laws may hold the Company contingently liable for environmental obligations if the Acquirer fails to perform on their assumed clean-up obligations. The Company believes this contingency is remote. The liability transfer agreement did not result in any material gain or loss to the Company compared to the liabilities previously recorded by the Company.

After the environmental transaction noted above, the Company remained liable for environmental issues on seven other sites (all of which are under the supervision of the United States Environmental Protection Agency (EPA) or its state counterpart) for which Detrex and other potentially responsible parties (PRP) retained the obligation for clean-up and periodic monitoring and maintenance. The liability transfer transaction removed approximately $14.3 million of the Company's environmental reserves. The remaining environmental reserves totaling $1,926,000 at December 31, 2013 represented the Company's best estimate of the long-term costs to remediate remaining contaminated properties or other potentially contaminated properties for which Detrex is a likely responsible party.

During 2014, the Company worked with the US EPA to install passive wells to clean up and monitor its owned property in Ashtabula, Ohio. The Company has been characterizing and remediating its Ashtabula property for many years. In 2011, additional contamination was discovered at the site, which required a significant cleanup effort. From 2011 to 2013, the Company continued construction to excavate and place extraction wells on the site. At December 2013, the reserve against this site totaled nearly $500,000, which the Company believed was adequate to materially complete the remediation. However, during 2014, construction continued and additional extraction wells were completed. The Company took a charge in the third quarter to restore the reserve for this project of $400,000 which the Company believes is adequate to meet its future spending obligation to oversee and manage its testing, maintenance, and monitoring activities.

Note 9 - Contingencies and Environmental Matters (Continued)

The remediation of the Fields Brook in Ashtabula, Ohio was completed by the Superfund group, Fields Brook Action Group (FBAG) in 2002. Subsequently, additional contamination was discovered and additional clean-up efforts have been made. The Company's share for the additional clean-up costs was $95,000 in 2013 and $88,000 in 2014. The Company believes that its December 31, 2014 environmental reserve of $317,000 for this site is adequate to provide for its future share of future sampling and maintenance costs.

The Company is liable for two southeastern Michigan Superfund sites that the Superfund group, of which the Company is a member, had bought out their environmental obligations in a consent decree with Chrysler Corporation and US EPA. As a result of the Chrysler bankruptcy several years ago, the two sites were returned to the Superfund groups. During 2014, the Superfund group embarked on an in-depth study to determine whether full remediation of the sites is cost effective and the costs required. The total third quarter charge for all sites for which the Company is responsible totaled $1 million. A summary of the environmental activity for 2014 and 2013 is as follows:

	2014	2013
Environmental reserve - Beginning of year	$ 1,925,974	$ 17,000,195
Current year environmental provision	1,000,000	-
(Less) current year environmental spending	(945,302)	(14,274,221)
(Less) impact of properties sold	-	(800,000)
Environmental reserve - End of year	1,980,672	1,925,974
Current portion	685,000	685,000
Non-current portion	$ 1,295,672	$ 1,240,974

The Company believes, based on current conditions, that its overall reserve levels which total nearly $2 million at December 31, 2014 are sufficient to address its anticipated remediation requirements for known contaminated sites. However, should the scope of remediation requirements change significantly from those currently projected, or if unforeseeable unanticipated conditions are discovered during the remediation process, the Company may be required to record additional charges to its environmental reserves. The Company will spend cash in future years that will be charged against the Company's environmental reserve liability as actual environmental investigation and remediation proceeds. However, the Company does not believe that it will be required to record material additional environmental expenses (provisions) in the foreseeable future.

In addition to the above, there are several other claims, including product liability claims, and lawsuits pending against the Company and its subsidiary. The Company's liability with respect to remediation costs for various sites, and the liability for other claims and lawsuits against the Company, was based on available data. The Company has established its reserves in accordance with U.S. generally accepted accounting principles. 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.

Note 10 - Preferred Stock

The Company has authorized 1,000,000 shares of $2 par value preferred stock, issuable in series. No shares were issued or outstanding as of December 31, 2014 and 2013.

Note 11 - Stock Purchase Rights

The Company has in place a Shareholder Rights Plan, under which preferred stock purchase rights were distributed to shareholders as a dividend of one Right for each outstanding share of Common Stock. Each Right will entitle shareholders to buy one one-hundredth of a newly issued share of Series A Preferred Stock of the Company at an exercise price of $30, subject to adjustment. The Right will be exercisable only if a person or group acquires beneficial ownership of 40 percent (previously 30 percent) or more of the Company's outstanding Common Stock or commences a tender or exchange offer upon consummation of which a person or group would beneficially own 40 percent or more of the Company's outstanding Common Stock. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates.

If any person or group becomes the beneficial owner of 40 percent or more of the Company's outstanding Common Stock, or if a holder of 40 percent or more of the Company's Common Stock engages in certain self-dealing transactions or a merger transaction in which the Company is the surviving corporation and its Common Stock remains outstanding, then each Right not owned by such person or certain related parties will entitle its holder to purchase, at the Right's then-current exercise price, shares of the Company's Common Stock (or, in certain circumstances, units of the Company's Series A Preferred Stock, cash, property, or other securities of the Company) having a market value equal to twice the then-current exercise price. In addition, if after a person or group becomes the beneficial owner of 40 percent or more of the Company's outstanding Common Stock, the Company is involved in a merger or other business combination transaction with another person after which its Common Stock does not remain outstanding, or sells 50 percent or more of its assets or earning power to another person, each Right will entitle its holder to purchase, at the Right's then-current exercise price, shares of common stock of such other person having a market value equal to twice the then-current exercise price. The Company will generally be entitled to redeem the Rights at $.01 per Right at any time until the tenth business day following a public announcement that a person or group has acquired 40 percent or more of the Company's Common Stock. The plan was extended in 2010 and will expire on May 4, 2020 unless the Rights are earlier redeemed by the Company.

Note 12 - Stock Options

The Company sponsors a stock option plan available for the Company's executive employees and directors. There were no options granted during 2014 or 2013. At December 31, 2014, there were no additional options available for future grants.

A summary of the fixed stock option grants outstanding under the Plan as of December 31, 2014 and 2013 and changes during the years is presented below.

	Shares Under Option	Weighted Average Exercise Price
2013		
Outstanding at beginning of year	76,000	$ 8.87
Granted	-	-
Exercised	4,000	14.55
Forfeited	-	-
Outstanding at end of year	72,000	8.55
2014		
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at end of year	72,000	$ 8.55

At December 31, 2014, all 72,000 options outstanding that had a weighted average remaining life of 2.53 years were exercisable, and are in the money. The per share exercise prices range from $6.50 to $16.00.

Note 12 - Stock Options (Continued)

The following table summarizes information about stock options outstanding at December 31, 2014:

	Options Outstanding and Exercisable		
	Shares Under Option	Weighted Average Remaining Life	Exercise Price
Exercise Price			
$6.50	55,000	1.20	$ 6.50
$8.00	1,000	1.34	8.00
$14.55	4,000	7.19	14.55
$16.00	12,000	7.19	16.00
	72,000	2.53	8.55

The aggregate intrinsic value of options outstanding, all of which were exercisable, was approximately $1,832,000 at December 31, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Unaudited

The accompanying Management's Discussion and Analysis will include the actual 2014 and 2013 operating results for Detrex Corporation and its remaining subsidiary, The Elco Corporation.

During 2014, the Company reported a pre-tax income of $1.9 million from continuing operations, compared to a pre-tax income of $4.3 million in 2013. The 2014 pre-tax operating results included a $1 million environmental charge. During 2013, the Company did not record an environmental charge because the environmental reserve at December 31, 2012 was sufficient to fund the 2013 environmental transfer obligation, other 2013 environmental expenditures and estimated future environmental remediation and operating matters on the remaining environmental sites. Total Company 2014 revenues of $40.8 million represent a decrease of $0.3 million (0.7 percent) compared to 2013. Consolidated 2014 selling, general and administrative (SGA) expenses decreased by $991,000 compared to 2013 as the parent company continued to pare its corporate expenses.

The Detrex Corporation 2014 net income of $1.0 million compares with the Company's share of total 2013 net income of $2.6 million. The 2014 net income includes an after-tax charge of $0.3 million for the settlement of a claim made by the buyer of Harvel Plastics.

The lower 2014 revenues of $40.8 million were due to lower sales of a significant product, and overall sluggish industrial lubricant activity. Gross margins, expressed as a percentage of sales, were 28.9 percent in 2014 compared to 34.3 percent in 2013. The lower 2014 margin percentage resulted principally from product mix and higher manufacturing costs. Elco's 2014 SGA expenses increased by approximately $300k compared to 2013 as a result of Elco's planned spending to support growth, including the cost to support an office and an employee in China which was established in 2013. Elco's overall operating earnings decreased to $4.6 million in 2014 from $7.3 million in 2013.

Detrex's consolidated results from continuing operations for 2014 reflected consolidated SGA expenses of $7.5 million, which is $1.0 million lower than 2013 SGA expenses.

The 2014 provision for depreciation and amortization increased as expected due to the continued capital investments made in the Elco business unit. Modestly higher depreciation and amortization provisions are expected in 2015.

The Company's 2014 interest expense of $169,000 for revolving credit and the term loan facilities increased compared with 2013 interest expense of $141,000 due to having outstanding debt for the full year. In 2013, the Company had no outstanding debt for the first six months.

The Company's income tax provisions are based on the pre-tax income, adjustments of estimates, and state and local tax expense. The Company's combined federal, state, and local 2014 income tax expense from continuing operations decreased by $1.1 million compared to the 2013 tax provision. However, as a result of the 2013 environmental transfer transaction, the Company incurred a 2013 tax based net operating loss (NOL) of approximately $13.3 million which was carried back to 2012 and resulted in a $3.2 million tax recovery which was received during 2014. The 2013 tax based NOL carryback also resulted in carryforwards to 2014 of minimum tax and other credits that are recorded in the Company's December 31, 2013 and 2014 deferred tax assets.

Comparative Operating Data

Comparative data includes continuing operations only.

($ in table in thousands)

	2014		2013	
	$	%	$	%
Elco Corporation				
Net sales	40,755	100.0	41,038	100.0
Gross margin	11,795	28.9	14,081	34.3
Selling, general, and administrative expenses	5,908	14.5	5,607	13.7
Depreciation and amortization	1,270	3.1	1,213	3.0
Elco pre-tax income	4,617	11.3	7,261	17.7
Detrex Corporation				
Selling, general, and administrative expenses	1,569	3.8	2,862	7.0
Depreciation and amortization	4	-	4	-
Environmental provision	1,000	2.5	-	-
Total consolidated pre-tax income	1,886	4.6	4,265	10.4

During 2014, the Company continued to effectively manage its environmental obligations. Following up on the Company's landmark environmental liability transfer transaction in 2013, the Company is obligated to manage seven remaining sites, all of which are subject to U.S. Environmental Protection Agency (EPA) regulatory oversight. Spending on these seven sites totaled $0.9 million in 2014 compared to $0.8 million in 2013. Two of the sites are located in southeastern Michigan that were returned to the Superfund groups in which the Company participated as a result of the Chrysler Corporation bankruptcy several years ago. A study has been undertaken to evaluate a cost effective method for cleaning up those sites. The study has not been completed and no decision has been made as to how to proceed on those sites. In addition, construction and related clean-up spending on the Company owned Ashtabula Ohio site has exceeded earlier estimates. Accordingly, the Company took a $1 million pre-tax environmental charge in the third quarter of 2014.

Company-sponsored defined benefit retirement plans were materially adversely impacted during 2014 by changes in the long-term interest rate environment and by an actuarial change in the mortality assumptions compared to those assumptions employed during 2013. The combined retired plan funding under U.S. generally accepted accounting principles changed from a net $1.4 million overfunded position at the end of 2013 to a $3.7 million underfunded position at the end of 2014. The Company used a 4.25 percent discount rate to calculate pension benefit obligations in 2014, which is 75 basis points lower than the rate employed in 2013. Ironically, the 2013 discount rate was 75 basis points higher than the rate used in 2012. The Company's utilization of new mortality tables in 2014 resulted from the adoption of longer-lived mortality tables adopted by the Society of Actuaries in October 2014. The actuarial assumption changes in the discount rate and mortality accounted for $2.3 million and $2.9 million, respectively, of the $5.1 million funding decrease during 2014.

Liquidity, Financial Condition, and Capital Resources

During 2014, the Company amended its agreement with JPMorgan Chase which provides up to a $5 million revolving credit line and a $10 million term loan credit line. The credit facility provides significant liquidity and enables the Company to fund its working capital requirements, capital spending and other obligations as they come due. Remaining borrowing capacity under the credit agreement totaled $8.7 million at December 2014. Significant spending during 2014 included capital expenditures of $0.7 million, environmental spending of $0.9 million and shareholder dividend payments of $1.7 million. During 2013, spending included $1.5 million for capital, $.08 million for environmental, $1.7 million for pension contributions and shareholder dividend payments of $1.7 million.

Management believes that due to the available credit facility and the profit outlook at the Elco business subsidiary provides sufficient financial liquidity to meet all of its financial obligations and to fund ongoing operations.

Outlook

There is continued optimism regarding the economic opportunities in the markets that Elco serves. Elco posted another profitable year in 2014 which is expected to continue. Although Elco's 2014 sales were almost $300 thousand lower than 2013 due to the lower sales to two major customers and an overall sluggish industrial lubricant market, margins remained strong and 2014 pre-tax income totaled $4.6 million. Elco strategies to achieve higher future profits include expansion in international markets, commercialization of new products and continued growth in high value, higher margin products while continuing to control expenses. The cash on hand and the existing credit agreement should provide sufficient liquidity and capital to operate and expand the business.

Risks and Uncertainties

The Company's 2013 environmental liability transfer transaction has significantly reduced the ongoing and future environmental spending risk. Under the federal and state environmental laws, the Company is contingently liable for environmental obligations if the Acquirer fails to perform on their assumed cleanup obligations. The 20 sites that were transferred in connection with the transaction have left the Company with only seven remaining environmental sites, all of which are under U.S. Environmental Protection Agency (EPA) oversight and all but one site involves other potentially responsible parties (PRPs). The Company cost estimates are reviewed periodically throughout the year to assess changed conditions; adjustments to recorded amounts are made if the changed conditions have a significant effect on cost estimates. During 2014, the Company recorded a $1 million provision to provide further clean-up activities. The Company is committed to aggressively settling environmental matters at the remaining sites as practically as possible. However, such estimates for remediation, as well as cost to transfer the environmental risk to a third party, 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 unanticipated conditions. However, it is not possible to determine whether actual losses will occur or accurately estimate the amount or range of any potential additional loss. Spending requirements for 2015 are projected to approximate $0.7 million. Estimates of the amount and timing of future costs are unpredictable, in part because estimates change as new facts are uncovered and environmental regulatory requirements and technologies continue to change. It is possible that future costs could exceed current environmental provisions; however, the amounts are not reasonably determinable based on current conditions. The Company believes that the recorded liability is a better estimate of long-term environmental remediation for the remaining seven contaminated sites and significant accounting environmental charges are not likely to occur in the foreseeable future. For further discussion of these matters, see Note 9 to the 2014 consolidated financial statements.

The Company's pension plans cover current and former employees of Detrex Corporation and Elco. The Company recognized pension costs (benefits) from continuing operations of ($122,000) in 2014, ($67,000) in 2013, and $232,000 in 2012. The plan's funding status changed from $1.4 million overfunding at December 31, 2013 due principally to positive investment results on plan assets and a 75 basis point increase in the discount rate applied to the pension benefit obligations. However, at December 31, 2014, the plans moved to a $3.7 underfunded position due principally to changes in the discount rate and longer-lived mortality assumptions. The annual pension expense is expected to be $297,000 in 2015. The Company contributed $1.7 million to fund pension obligations in 2013. There were immaterial pension contributions made in 2014. The Company is not required to make a 2015 pension contribution. Depending on actual rates of return on the pension investment portfolio, and changes in discount rates, mortality assumptions and other factors, the recorded expense, obligations, and funding requirements could change significantly (see Note 8 to the consolidated financial statements and "Liquidity, Financial Condition, and Capital Resources").

The Company's operating strategy in recent years has been to build shareholder value by strategically allocating capital, including opportunistic divestitures and investing in stable and consistently profitable businesses such as Elco. The Harvel sale resulted in after-tax cash proceeds to Detrex of approximately $32 million which enabled Detrex to retire all of its bank debt, fund pension and environmental legacy obligations, pay significant dividends to shareholders, and continue funding Elco's capital requirements. The Detrex bank credit agreement provides significant borrowing capacity to enable the Company to invest in economically beneficial opportunities and meet its ongoing business obligations. The Company must continue to operate profitably to fund its current operating needs, fund capital expenditures, pension, environmental obligations, and fund dividend payments. However, the Company's profitability and available bank credit facility significantly mitigates the financial risk and will likely enable the Company to meet its financial obligations and fund strategic objectives.

Application of Critical Accounting Policies

The management of the Company has evaluated the accounting policies used in the preparation of the accompanying consolidated financial statements and related notes and believes those policies to be reasonable and appropriate. In applying accounting principles in accordance with United States generally accepted accounting principles, the Company is required to make estimates and assumptions about future events that affect the amounts reported in the Company's financial statements and the accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, management must make estimates, which require the exercise of judgment. Actual results could differ from these estimates, and any such differences may be material to the consolidated financial statements.

The Company considers an accounting estimate to be critical if: (1) the accounting estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made and (2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Management has discussed the development, selection and disclosure of critical accounting estimates set forth in the following paragraphs with the Audit Committee of the Company's Board of Directors. In addition, there are other items within the consolidated financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items have had in the past, and could have in the future, a material impact on our consolidated financial statements.

Environmental Reserves

The liability for environmental obligations represents a significant estimate on the Company's consolidated balance sheet, and by its nature is very difficult to estimate. Furthermore, any changes the Company makes to the environmental liability can have a large and adverse effect on its operating results. The Company determines its environmental obligation based on evaluations of site conditions, current law, and existing technologies. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technology. In addition, estimates of environmental costs may be affected by the willingness of regulatory authorities to conclude that remediation and/or monitoring performed by the Company is adequate. Management meets regularly to review its environmental matters, and makes use of both internal and third-party data to develop a basis for recording environmental related cost estimates in the Company's consolidated financial statements. The recorded liabilities are periodically adjusted as remediation efforts progress or additional technical or legal information becomes available. The Company has nearly $2 million accrued for environmental obligations at December 31, 2014 compared to $1.9 million accrued for these obligations at December 31, 2013. These are the Company's best estimates of the future costs with respect to known environmental matters. Management believes that the December 31, 2014 accrued environmental reserve of $2 million represents an appropriate estimate and will likely reduce the need for significant additional environmental provisions in the foreseeable future. While the uncertainty is expected to decline as the projects are completed, it is during the construction and/or remediation of these projects when further contamination or problems may be encountered. Accordingly, it is during these times when further charges may be required. For further discussion, see Note 9 to the consolidated financial statements and the Risks and Uncertainties section of the Management's Discussion and Analysis of Financial Condition.

Pensions

The amounts recognized in the consolidated financial statements related to pensions are determined from actuarial valuations. Inherent in these valuations are principal assumptions, including the expected long-term return on plan assets, discount rates at which the liabilities could be settled at December 31, 2014, and mortality rates. These assumptions are updated annually and are disclosed in Note 8 to the consolidated financial statements. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore will affect expense recognized, funding requirements, and obligations recorded in future periods. The plans are funded in accordance with ERISA and IRS regulations; required funding is determined based upon the funded status of the plans. The plans for union and nonunion employees were frozen during 2009 and 2010. During 2014, the pension funding obligation increased by $5.1 million (from a net overfunded status of $1.4 million at December 31, 2013 to an underfunded status of $3.7 million at December 31, 2014). During 2014, the Company decreased the discount rate assumption used to measure the future benefit obligation from 5.00 percent to 4.25 percent and changed the actuarial mortality assumption, utilizing the U.S. Society of Actuaries updated longer-lived mortality table. The discount rate change increased the benefit obligation by $2.3 million and the mortality assumption change increased the benefit obligation by $2.9 million.

The expected long-term rate of return on assets is developed with input from the Company's actuarial firm and independent investment consultants. The Company's historical pension fund asset performance and comparisons to expected returns of other companies are also considered. The long-term rate of return assumption used for determining net periodic pension expense was 7.5 percent for 2014 and 2013. Actual market investment returns (net of plan expenses) for plans sponsored from continuing operations were approximately 6 percent in 2014 and 11 percent in 2013. Assuming a constant discount rate, if actual rates of return on the pension investment portfolio exceed the 2014 expected 7.5 percent rate of return, contribution and expense levels could decline; if actual returns are less than the expected rate of return, required contributions and expense could be higher.

The Company bases the determination of pension expense or income on a market related valuation of plan assets; this market related valuation recognizes investment gains or losses over a five-year period from the year in which they occur, which reduces year-to-year volatility. Investment gains or losses represent the difference between the expected return calculated using the market related value of plan assets, and the actual return based on the market value of plan assets. Since the market related value of plan assets recognizes gains or losses over a five-year period, the future value of plan assets will be affected when previously deferred gains or losses are recognized. These gains or losses will affect future pension income or expense when they are recognized.

The discount rate used for determining future pension plans' obligations is based on rates of high quality long-term corporate bonds. The assumed discount rate was 4.25 percent and 5.00 percent at December 31, 2014 and 2013, respectively. Assuming a constant rate of return, if the discount rate rises, future contributions and expense would decline; if the discount rate declines, contributions and expense would rise.

The Company adopted mortality table assumptions for the plans that were recently promulgated by the U.S. Society of Actuaries. These updated mortality tables reflect that people are living longer. The new tables significantly increased the actuarially determined pension benefit obligation in the Company sponsored plans. It is expected that these tables will be a valid measure of pension participants' mortality for a number of years.

The actuarial assumption regarding the long-term rate of annual increases in future compensation levels for the pension plans are no longer material due to the plan freezes.

The Company reviews the actuarial assumptions annually and may change the assumptions in the future.

SUPPLEMENTARY INFORMATION (Unaudited)
Selected Quarterly Data

	2014 Quarters				2013 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Thousands of dollars, except per share amounts)							
Net sales – Continuing operations	$ 9,700	$ 11,136	$ 9,732	$ 10,187	$ 8,520	$ 10,127	$ 11,224	$ 11,167
Gross margin on sales – Continuing operations	2,529	3,113	2,907	3,246	2,917	3,511	3,889	3,765
Pre-tax earnings (loss) – Continuing operations (1)	323	(48)	790	821	390	916	1,336	1,623
Net income – Continuing operations	254	(31)	521	542	(150)	797	914	1,039
Net income – Discontinued operations	-	-	(304)	-	-	-	-	-
Net income	254	(31)	217	542	(150)	797	914	1,039
Basic earnings per common share attributable to Detrex shareholders:								
From continuing operations	0.15	(0.02)	0.31	0.33	(0.09)	.48	.55	.61
From discontinued operations	-	-	(0.18)	-	-	-	-	-
Total basic earnings per share	0.15	(0.02)	0.13	0.33	(0.09)	.48	.55	.61

(1) Includes 2014 environmental charge of $1,000 in the third quarter.

BUSINESS

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation (the "Company") and its Elco subsidiary manufacture chemical products predominantly for use in industrial manufacturing. The following describes Detrex's subsidiary's product offerings during 2014:

Subsidiary of Detrex Corporation

- ***The Elco Corporation*** — a manufacturer of high performance specialty chemicals serving three distinct business areas, namely additives for industrial petroleum products, high purity hydrochloric acid for the semiconductor industry, and specialty chemicals. Elco's petroleum additives are used for enhancing the properties of hydraulic oils, metalworking fluids, gear oils, greases, and fuels. The Ultramax® hydrochloric acid product line meets the most demanding semiconductor specifications, and Detrex hydrochloric acid is used in various applications such as pharmaceutical manufacturing. Elco's products are manufactured in Cleveland, Ohio and Ashtabula, Ohio and sold domestically through a direct sales force and globally through agents and distributors. Websites: www.elcocorp.com and www.detrexchemicals.com

Net sales (in thousands) of the Elco business unit amounted to $40,755 in 2014 and $41,038 in 2013.

The backlog of orders at any one time is generally not significant to the Company's business. Raw materials essential to the Company's various products are generally commodity materials and are generally available from competitive sources.

The Company owns a limited number of trademarks which aid in maintaining the Company's competitive position; these expire at various times. The expiration of such trademarks should not have a materially adverse effect on the Company's operations. No material portion of the Company's business is seasonal or subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government.

Elco's five largest customers generated approximately 29 percent of the Company's 2014 consolidated revenues from continuing operations. If business from significant customers is lost, the Company's operating results could be adversely impacted. Elco has significant suppliers that supply a significant percentage of raw materials. The majority of these materials can be sourced from other suppliers. Efforts are made to seek to qualify alternative supply sources for limited sourced materials.

The Company expects to continue to incur professional fees and remediation expenses in connection with its remaining environmental compliance efforts. The Company maintains environmental reserves which at December 31, 2014 totaled $2 million, of which $0.7 million is estimated to be spent in 2015. A more detailed discussion of environmental matters is included in Note 9 to the 2014 consolidated financial statements.

The Company employed 66 persons as of December 31, 2014.

The Company is not engaged in manufacturing operations in foreign countries.

PROPERTIES

The Company's administrative offices are located in approximately 3,000 square feet of leased space at 24901 Northwestern Hwy., Suite 410, Southfield, Michigan 48075.

During 2014, Detrex and its subsidiaries conducted manufacturing, research and warehouse operations in several locations, of which six are owned and one is leased.

Manufacturing properties owned at December 31, 2014 are as follows:

1) The Elco Corporation ("Elco") manufactures gear and oil additives in a plant it owns in Cleveland, Ohio on five acres of land and 59,000 square feet of office, research, and plant space. This plant is equipped with chemical reactors, mixing and blending equipment, and storage facilities.

2) Facilities located on 57 acres in Ashtabula, Ohio are used in connection with the manufacture of hydrochloric acid, sulfurized and zinc-based lubricant additives. These facilities are owned by Detrex Corporation and managed by Elco.

FORWARD-LOOKING STATEMENTS

This document, including the letter to shareholders and the 2013 Annual Report, contains statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). The words "expect," "plan," "estimate," "anticipate," "predict," "believe," and similar expressions and variations thereof are intended to identify forward-looking statements. 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 document. 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, readers of this document are cautioned that forward-looking statements are not guarantees of future performance and that 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 document 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 document 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: geopolitical unrest, 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 orders in backlog, retention of key personnel, and other factors.

SELECTED FINANCIAL DATA
(From continuing operations)

	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share amounts)				
Net sales from continuing operations	$40,755	$41,038	$43,406	$48,918	$35,289
Net income (loss) from continuing operations	1,286	2,600	(7,011)	2,423	1,529
Net income	981	2,600	7,453	4,632	2,222
Net income attributable to Detrex	981	2,600	7,708	4,277	2,088
Basic earnings (loss) per common share:					
From continuing operations	0.77	1.55	(4.18)	1.45	0.97
From discontinued operations	(0.18)	-	8.78	1.10	0.35
Net earnings per share attributable to Detrex Corporation	0.59	1.55	4.60	2.55	1.32
Total assets	23,998	30,163	37,291	54,130	50,318
Net working capital	7,270	8,574	12,206	12,057	9,562
Capital expenditures	686	1,464	1,758	2,304	1,392
Total bank debt	4,348	7,740	-	15,282	16,674
Pension plan contributions	6	1,673	6,669	1,579	1,381
Environmental expenditures	945	14,274	2,836	2,216	2,071
Shareholders' equity	10,284	14,351	11,133	9,303	7,165
Shareholders' equity per common share	6.14	8.56	6.64	5.55	4.52
Number of employees	66	68	65	69	62
Percentages to net sales:					
Gross margin	28.9%	34.3%	34.8%	32.8%	34.96%
Net income (loss) from continuing operations	3.15%	6.33%	(16.15%)	4.95%	4.33%
Net income (loss) from continuing operations as a percent of:					
Average total assets	4.74%	7.71%	(15.34%)	4.60%	3.12%
January 1st Detrex shareholders' equity	8.96%	23.35%	(75.37%)	33.80%	32.76%
Current ratio	2.3	2.0	2.4	1.7	1.6

DIRECTORS

WILLIAM C. KING
Retired Chairman of the Board

THOMAS E. MARK
Chariman, President and Chief Executive Officer

BENJAMIN W. McCLEARY
Member, SeaView Capital LLC,
Investment Bankers, Wakefield, Rhode Island

JOHN C. RUDOLF
Founder and Manager Glacier Peak Capital
Bellevue, Washington

DAVID R. ZIMMER
Retired Managing Partner, Stonebridge Business Partners, LLC,
Financial and Business Advisors, Troy, Michigan

AUDIT COMMITTEE

DAVID R. ZIMMER, Chairman
WILLIAM C. KING
BENJAMIN W. McCLEARY
JOHN C. RUDOLF

CORPORATE OFFICERS

T. E. MARK
Chairman, President and Chief Executive Officer

R. M. CURRIE
Vice President, General Counsel and Secretary - Treasurer

D. A. CHURCH
Executive Vice President

BUSINESS UNIT EXECUTIVE

D. A. CHURCH
President, The Elco Corporation and
General Manager, Chemicals Division
www.elcocorp.com and www.detrexchemicals.com

TRANSFER AGENT AND REGISTRAR

COMPUTERSHARE, N.A.

AUDITORS

PLANTE & MORAN, PLLC

LEGAL COUNSEL

CLARK HILL PLC

A COPY OF THE COMPANY'S ANNUAL REPORT FOR THE YEAR 2014 WILL BE FURNISHED WITHOUT CHARGE TO SHAREHOLDERS UPON WRITTEN REQUEST. REQUESTS ARE TO BE SENT TO TREASURER, DETREX CORPORATION, 24901 NORTHWESTERN HWY., SUITE 410, SOUTHFIELD, MICHIGAN 48075.

DETREX CORPORATION

GENERAL OFFICES — 24901 NORTHWESTERN HWY., SUITE 410, SOUTHFIELD, MICHIGAN 48075

Telephone: (248) 358-5800
INTERNET ADDRESS — http://www.detrex.com