Detrex Corporation and Consolidated Subsidiary

2015 Annual Report

Contents

Highlights (1)

	2015	2014
Operations:		
Net sales from continuing operations	$38,885,653	$40,755,269
Environmental provision	300,000	1,000,000
Net income (loss) from continuing operations	2,302,063	1,285,627
Net income (2)	2,302,063	981,488
Earnings before Interest, Taxes and Depreciation (EBITDA) (3	4,400,974	3,329,034
Per Diluted Common Share:		
Earnings per share:		
From continuing operations	1.33	0.74
From discontinued operations	-	(0.17)
Net earnings per share	1.33	0.57
Financial Position and Other Data:		
Total assets	22,327,730	23,997,644
Total bank debt	3,117,500	4,347,500
Total liabilities	11,533,277	13,713,811
Capital expenditures	1,066,869	685,627

(1) This information should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis.
(2) 2014 Net loss from discontinued operations of $0.3 million reflects the impact from the settlement of a claim made 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 2015 the Company increased year-over-year earnings in spite of challenging economic conditions during the last six months. Strategic actions taken in the past few years at Elco and at the Corporate level contributed to an agile organization that was less burdened by past legacy costs and able to adapt to economic challenges. Elco continued to invest in markets, products and processes while benefiting from past achievements to increase profitability at lower sales and volume levels. Corporate environmental spending continued to decline and the reduced environmental charge in 2015 reflects a higher level of confidence in the estimates for this liability. Cash from operations and other sources resulted in the reduction of our loan balance, net of cash, to $1.6 million while we continued to pay $1.00 per share in annual dividends.

In 2015 Detrex generated income from continuing operations and net income of $2.3 million, or $1.33 per fully diluted share. In 2014 income from continuing operations was $1.3 million, or $0.74 per fully diluted share, and net income was $1.0 million, or $0.57 per fully diluted share, after discontinued operations. In 2015 net income includes an $0.3 million pre-tax charge to increase the environmental reserve to $1.8 million. The 2014 net income from continuing operations includes a $1.0 million pre-tax environmental charge, and net income includes a $0.3 million after-tax charge for resolving a dispute. In 2015 the Company recorded a $0.3 million state income tax recovery, net of federal income tax, that was not previously recorded in earnings.

Sales from the Company's sole subsidiary, The Elco Corporation, were $38.9 million in 2015 compared to $40.8 million in 2014. The primary contributor to this difference was the non-recurrence of low margin tolling revenue of approximately $2 million. The mix of products sold in 2015 changed substantially compared to the prior year as the market for industrial lubricant additives became more competitive due to economic conditions that included the appreciation of the dollar. Importantly, Elco gained a number of product approvals with new and existing customers with a focus on metalworking and grease applications. This additional revenue potential was not fully realized in 2015 due to reductions in the core North American business as market share was maintained while the overall market shrank. We believe that the business is poised for significant revenue growth going forward as market conditions improve.

Elco's operating margin increased by approximately $0.4 million in 2015 over 2014 in spite of slightly lower sales. Gross margins expressed as a percentage of sales increased to 30.4% in 2015 compared to 28.9% in 2014. This improvement resulted from product mix, lower manufacturing costs and a decline in raw material costs. Elco continued to make investments in sales, R&D and process improvement efforts while certain other overhead expenses declined.

The Company continued to benefit in 2015 from strategic actions to simplify and focus the business while reducing the impact of corporate overhead and legacy costs.

The Company's only environmental liability activities involved the sites that were not included in the 2013 liability transfer transaction, and we continued to make progress on the few retained sites. An additional $0.3 million pre-tax provision was made for future monitoring and maintenance costs. At year-end, the environmental reserve for the sites was $1.8 million, of which approximately $0.3 million is expected to be spent in 2016.

The Company's frozen defined benefit plans had a $3.7 million underfunded position at the end of 2015 which is approximately the same underfunded position as at the end of 2014. Pension investment results reported a 3 percent loss in 2015 which was substantially offset by an increase in discount rates from 4.25% to 4.50% and adjustment to the actuarial mortality assumption. The Company does not expect to make material pension contributions during 2016.

At year-end, the bank loan balance, net of cash on hand, was $1.6 million compared to the 2014 net loan balance of $2.6 million. Significant spending during 2015 included capital expenditures of $1.1 million, environmental spending of $0.5 million and shareholder dividend payments of $1.7 million.

In 2015 we continued to build a solid foundation for Elco while reducing the influence of legacies associated with the Corporate parent. Going forward, the Company is streamlined and positioned for growth as a true specialty chemicals company. We are in the process of evaluating strategic opportunities to generate shareholder value and will keep you informed of our progress.

Thomas Mark
President, CEO and Chairman

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Independent Auditor's Report

To the Board of Directors
Detrex Corporation and Consolidated Subsidiary

We have audited the accompanying consolidated financial statements of Detrex Corporation and Consolidated Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2015 and 2014 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Consolidated Subsidiary as of December 31, 2015 and 2014 and the 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

March 10, 2016

Consolidated Balance Sheet

December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 1,531,267	$ 1,778,331
Accounts receivable - Net of allowance for uncollectible accounts of $30,000 in 2015 and 2014	4,219,224	4,697,086
Inventories	5,153,697	5,445,137
Income tax receivable	1,256,432	301,000
Prepaid expenses and other current assets:		
Prepaid expenses	257,476	201,387
Deferred income taxes	205,000	292,000
Other assets	193,060	189,630
Total current assets	12,816,156	12,904,571
Property and Equipment		
Land	51,509	51,509
Buildings	9,494,492	9,464,375
Machinery and equipment	19,508,683	18,610,946
Construction in progress	146,777	219,359
Total property and equipment	29,201,461	28,346,189
Less accumulated depreciation	20,057,099	18,949,589
Net property and equipment	9,144,362	9,396,600
Other Assets		
Deferred income taxes	84,000	1,224,238
Other noncurrent assets	283,212	472,235
Total assets	**$ 22,327,730**	**$ 23,997,644**

Consolidated Balance Sheet (Continued)

December 31, 2015 and 2014

	2015	2014
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 1,677,045	$ 1,757,842
Current portion of long-term debt	1,230,000	1,230,000
Current portion of environmental reserve	255,000	685,000
Accrued and other current liabilities:		
Accrued compensation	355,316	302,349
Other accruals	903,575	1,659,134
Total current liabilities	4,420,936	5,634,325
Long-term Debt - Net of current portion	1,887,500	3,117,500
Other Long-term Liabilities		
Pension obligation	3,723,231	3,666,314
Environmental reserve	1,501,610	1,295,672
Total liabilities	11,533,277	13,713,811
Stockholders' Equity		
Common capital stock ,$2 par value, authorized 4,000,000 shares, outstanding 1,675,939	3,351,878	3,351,878
Additional paid-in capital	881,730	881,730
Retained earnings	18,049,933	17,423,809
Accumulated other comprehensive loss	(11,489,088)	(11,373,584)
Total stockholders' equity	10,794,453	10,283,833
Total liabilities and stockholders' equity	**$ 22,327,730**	**$ 23,997,644**

See notes to consolidated financial statements.

Detrex Corporation and Consolidated Subsidiary

Consolidated Statement of Operations

Years Ended December 31, 2015 and 2014

	2015	2014
Net Sales	$ 38,885,653	$ 40,755,269
Cost of Sales - (Exclusive of depreciation)	27,057,770	28,960,713
Selling, General, and Administrative Expenses	7,113,978	7,477,392
Provision for Depreciation and Amortization	1,310,840	1,274,066
Provision for Corporate Environmental Reserve	300,000	1,000,000
Loss from Asset Disposals	8,267	24,470
Interest Expense	96,071	169,050
Other Expense (Income) - Net	4,664	(36,340)
Income - Before income taxes	2,994,063	1,885,918
Income Tax Expense	692,000	600,291
Income from Continuing Operations	2,302,063	1,285,627
Discontinued Operations - Loss from settlement related to sale of Harvel Plastics, Inc. - Net of income tax	-	(304,139)
Consolidated Net Income	**$ 2,302,063**	**$ 981,488**
Basic Earnings (Loss) Per Common Share:		
From continuing operations	$ 1.37	$ 0.77
From discontinued operations	-	(0.18)
Net earnings per share	**$ 1.37**	**$ 0.59**
Fully Diluted Earnings (Loss) Per Common Share:		
From continuing operations	$ 1.33	$ 0.74
From discontinued operations	-	(0.17)
Net earnings per share	**$ 1.33**	**$ 0.57**
Number of Shares Outstanding - Basic	1,675,939	1,675,939
Number of Shares Outstanding - Fully diluted	1,725,515	1,729,570

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2015 and 2014

	2015	2014
Consolidated Net Income	$ 2,302,063	$ 981,488
Other Comprehensive Loss - Net of tax		
Defined benefit pension plans:		
Net loss - Net of tax of $320,100 in 2015 and $2,006,729 in 2014	(594,471)	(3,726,781)
Reclassification of net periodic pension expense - net of tax of ($257,906) in 2015 and ($190,388) in 2014	478,967	353,577
Total other comprehensive loss	(115,504)	(3,373,204)
Comprehensive Income (Loss)	**$ 2,186,559**	**$ (2,391,716)**

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2015 and 2014

	Common Capital Stock	Additional Paid-in Capital	Retained Earnings	Accumulated OCI	Total
Balance - January 1, 2014	$ 3,351,878	$ 881,730	$ 18,118,260	$ (8,000,380)	$ 14,351,488
Comprehensive income:					
Net income	-	-	981,488	-	981,488
Other comprehensive loss	-	-	-	(3,373,204)	(3,373,204)
Dividends declared	-	-	(1,675,939)	-	(1,675,939)
Balance - December 31, 2014	3,351,878	881,730	17,423,809	(11,373,584)	10,283,833
Comprehensive income:					
Net income	-	-	2,302,063	-	2,302,063
Other comprehensive loss	-	-	-	(115,504)	(115,504)
Dividends declared	-	-	(1,675,939)	-	(1,675,939)
Balance - December 31, 2015	**$ 3,351,878**	**$ 881,730**	**$ 18,049,933**	**$ (11,489,088)**	**$ 10,794,453**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Consolidated net income	$ 2,302,063	$ 981,488
Adjustments to reconcile consolidated net income to net cash and cash equivalents from operating activities:		
Loss from discontinued operations	-	304,139
Depreciation and amortization	1,310,840	1,274,066
Loss on disposal of property and equipment	8,267	24,470
Provision for uncollectible receivables	12,471	5,000
Environmental reserve provision	300,000	1,000,000
Deferred income taxes	1,289,432	(276,641)
Pension benefit	(95,553)	(121,685)
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Accounts receivable	465,391	(372,738)
Inventory	291,440	(118,659)
Income taxes receivable	(955,432)	2,851,000
Prepaid expenses and other assets	129,504	(72,747)
Accounts payable	(80,797)	(52,385)
Environmental reserve	(524,062)	(945,302)
Pension obligations	(25,228)	(6,227)
Accrued and other liabilities	(702,592)	(207,778)
Net cash and cash equivalents provided by operating activities	3,725,744	4,266,001
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,066,869)	(685,627)
Net cash used in investing activities of continuing operations	(1,066,869)	(685,627)
Net cash provided by investing activities of discontinued operations	-	2,059,852
Net cash (used in) provided by investing activities	(1,066,869)	1,374,225
Cash Flows from Financing Activities		
Proceeds from revolving credit facilities and long-term debt	-	1,950,000
Payments on revolving credit facilities, long-term debt, and capital lease obligations	(1,230,000)	(5,342,500)
Dividends paid	(1,675,939)	(1,675,939)
Net cash and cash equivalents used in financing activities	(2,905,939)	(5,068,439)
Net (Decrease) Increase in Cash and Cash Equivalents	(247,064)	571,787
Cash and Cash Equivalents - Beginning of year	1,778,331	1,206,544
Cash and Cash Equivalents - End of year	**$ 1,531,267**	**$ 1,778,331**
Supplemental Cash Flow Information - Cash paid (collected) during the year for		
Interest	$ 101,043	$ 175,138
Income taxes	847,802	(1,960,017)

See notes to consolidated financial statements.

Note 1 - Nature of Business

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

The Company sold its Harvel Plastics, Inc. 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 settlement 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 25 percent of the Company's total net revenue in 2015 and 26 percent in 2014 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 34 percent of the Company's consolidated revenues in 2015 and 29 percent in 2014; the loss of one or more of these significant customers could materially adversely impact operating results. Accounts receivable from those customers were approximately $1.27 million and $850,000 at December 31, 2015 and 2014, respectively.

Note 2 - Significant Accounting Policies

Principles of Consolidation

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 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 a money market fund that is 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 $386,000 and $569,000 at December 31, 2015 and 2014, respectively. The Company recorded a loss before income taxes on the investments of $7,000 in 2015 and a gain before income taxes of $43,000 in 2014. The Company made distributions of $189,000 during 2015. See Note 6 for a description of the fair value of the investments.

Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Note 2 - Significant Accounting Policies (Continued)

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.

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 $145,000 for 2015 and $140,000 for 2014.

Research and Development

Research and development costs are charged to operations as incurred and approximated $750,000 and $705,000 in 2015 and 2014, respectively.

Earnings (Loss) 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, 2015 and 2014, all outstanding options were vested and were in-the-money; the potential dilution was 49,576 shares in 2015 and 53,631 shares in 2014 and resulted in a four cent and two cent per share dilution of earnings per share for net income attributable to Detrex Corporation common stockholders in 2015 and 2014, respectively.

Other Comprehensive Income

Accounting principles generally 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 (gains and losses, prior service costs, and transition assets or obligations), are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net income, are considered components of comprehensive income.

Income Taxes

A current tax liability or asset is recognized for the estimated taxes payable or refundable on 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.

Note 2 - Significant Accounting Policies (Continued)

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.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue 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 March 10, 2016, which is the date the consolidated financial statements were available to be issued.

Note 3 - Inventory

Inventory at December 31, 2015 and 2014 consists of the following:

	2015	2014
Raw materials	$ 1,738,569	$ 1,836,648
Finished goods	3,415,128	3,608,489
Total inventory	$ 5,153,697	$ 5,445,137

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. During 2015, the agreement was further amended to extend the long-term credit facility payments through 2018. Outstanding letters of credit at December 31, 2015 amounted to $106,000 and expire at various dates in 2016. At December 31, 2015, total outstanding indebtedness amounted to $3,117,500, all on the long-term credit facility. Payments of $1,230,000, $1,230,000, and $657,500 are due in 2016, 2017, and 2018, respectively. 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, 2015 for both). The weighted average interest rate for all borrowings for the year ended December 31, 2015 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 $96,000 for 2015 and $169,000 for 2014.

Note 5 - Income Taxes

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

	2015	2014
Current:		
Federal	$ (155,000)	$ 385,947
State and local	(442,000)	64,468
Total current	(597,000)	450,415
Deferred:		
Federal	1,344,000	133,875
State and local	(55,000)	16,001
Total deferred	1,289,000	149,876
Total income tax expense	$ 692,000	$ 600,291

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.

State and local income tax recovery of $442,000 resulted from the settlement of a state tax audit that was completed in late 2015.

Deferred tax assets (liabilities) at December 31, 2015 and 2014 relate to the following temporary differences and carryforwards:

	2015	2014
Deferred tax assets:		
Environmental	$ 592,194	$ 658,235
Pension benefits	1,291,962	1,283,210
Inventory related	91,500	56,028
Alternative minimum tax credit carryforward	-	1,054,915
Other	232,011	292,488
Gross deferred tax assets	2,207,667	3,344,876
Deferred tax (liabilities):		
Property and depreciation	(1,822,421)	(1,744,139)
Other	(96,246)	(84,499)
Gross deferred tax liabilities	(1,918,667)	(1,828,638)
Net deferred tax asset	$ 289,000	$ 1,516,238

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:

	2015	2014
Income tax expense (recovery), computed at 34 percent of pretax income	$ 1,017,981	$ 641,212
State and local income tax expense (recovery) - Net of federal tax effect	(328,020)	29,029
Manufacturing tax benefit	(123,173)	(144,146)
Research and development tax credit	(27,399)	(27,844)
Nondeductible expenses and adjustments to prior year estimate - Net	152,611	102,040
Total provision for income taxes	$ 692,000	$ 600,291

Note 5 - Income Taxes (Continued)

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, 2015 and 2014 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 money market accounts totaling approximately $386,000 at December 31, 2015 and $569,000 at December 31, 2014, classified as follows on the consolidated balance sheet:

	2015	2014
Other assets (current assets)	$ 193,000	$ 190,000
Other assets (noncurrent assets)	193,000	379,000
Total	$ 386,000	$ 569,000

Note 7 - Pension and Other Postretirement Benefit Plans

The Company and its subsidiary sponsor noncontributory, 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 $25,000 in 2015 and $6,000 in 2014.

Note 7 - Pension and Other Postretirement Benefit Plans (Continued)

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

	Pension Benefits	
	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 34,395,207	$ 30,020,833
Interest cost	1,386,793	1,446,193
Change in mortality assumption	(683,787)	2,947,093
Change in discount assumption	(860,397)	2,261,822
Actuarial (gain) loss	(619,025)	36,134
Benefits paid	(2,084,395)	(2,316,868)
Benefit obligation at end of year	31,534,396	34,395,207
Change in plan assets:		
Fair value of plan assets at beginning of year	30,728,893	31,416,152
Actual return on plan assets	(868,693)	1,623,382
Employer contributions	25,228	6,227
Other	10,132	-
Benefits paid	(2,084,395)	(2,316,868)
Fair value of plan assets at end of year	27,811,165	30,728,893
Funded status at end of year	$ (3,723,231)	$ (3,666,314)

At December 31, 2015, the Company-sponsored pension plans were underfunded in total by $2,200,844 and the supplemental employee retirement plans (SERPs) were underfunded by $1,522,387. At December 31, 2014, the pension plans were underfunded in total by $1,948,278 and the SERPs were underfunded by $1,718,036.

Amounts recognized in the balance sheet consist of the following:

	Pension Benefits	
	2015	2014
Noncurrent liabilities	$ (3,723,231)	$ (3,666,314)

Amounts recognized in accumulated other comprehensive income before income tax consist of the following:

	Pension Benefits	
	2015	2014
Unrecognized net loss	$ 17,675,520	$ 17,497,822
Total recognized in other comprehensive income	$ 17,675,520	$ 17,497,822

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows (amounts in millions):

	Pension Benefits	
	2015	2014
Projected benefit obligation	$ 31.5	$ 34.4
Accumulated benefit obligation	31.5	34.4
Fair value of plan assets	27.8	30.7

Note 7 - Pension and Other Postretirement Benefit Plans (Continued)

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Pension Benefits	
	2015	2014
Net Periodic Pension Cost		
Interest cost	$ 1,386,793	$ 1,446,193
Expected return on plan assets	(2,219,219)	(2,270,974)
Net amortization	736,873	543,965
Settlement loss	-	159,131
Net periodic pension cost (benefit)	(95,553)	(121,685)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Asset investment loss (gain)	3,087,595	647,593
Change in mortality assumption	(683,787)	2,947,093
Change in discount rate assumption	(860,397)	2,261,822
Settlement loss	-	(159,131)
Amortization of net loss	(736,873)	(543,965)
Experience loss	(618,708)	36,134
Other	(10,132)	-
Total recognized in other comprehensive income	177,698	5,189,546
Total recognized in net periodic benefit cost and other comprehensive income	$ 82,145	$ 5,067,861

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2016 is $792,000.

Weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits	
	2015	2014
Discount rate	4.50 %	4.25 %
Expected rate of return on plan assets	7.50	7.50

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 are as follows:

	Pension Benefits	
	2015	2014
Discount rate	4.25 %	5.00 %
Expected long-term 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 returns of the respective asset classes adjusted for anticipated future market movements and investment trends.

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.

Note 7 - Pension and Other Postretirement Benefit Plans (Continued)

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:

	Target Range	2015	2014
Equity securities	40-70%	69.4%	48.2%
Debt securities	30-50%	29.9%	51.0%
Cash equivalents	0-10%	0.7%	0.8%
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 are principally long-duration corporate bonds of companies from diversified industries (both U.S. and international), mortgage-backed securities, and U.S. treasuries.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Cash and cash equivalents	$ -	$ 198,253	$ -	$ 198,253
Mutual funds institutional equity (a)	12,726,101	-	-	12,726,101
Mutual funds institutional international equity (b)	6,574,392	-	-	6,574,392
Mutual funds institutional fixed income (c)	8,312,419	-	-	8,312,419
Total	$ 27,612,912	$ 198,253	$ -	$ 27,811,165

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Cash and 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 (c)	15,685,883	-	-	15,685,883
Total	$ 30,511,563	$ 217,330	$ -	$ 30,728,893

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

Note 7 - Pension and Other Postretirement Benefit Plans (Continued)

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

Years Ending	Pension Benefits
2016	$ 2,089,047
2017	2,034,392
2018	2,198,568
2019	2,217,325
2020	2,201,367
2021-2025	10,851,385
Total	$ 21,592,084

The pension investment portfolios realized a net loss of 3 percent in 2015 and a net gain of 6 percent in 2014. In 2015, the Company increased the discount rate by .25 percent from 4.25 percent to 4.50 percent. The Company decreased the discount rate by .75 percent in 2014. The pension funding changes in 2015 and 2014 include the investment results and contributions made, coupled with the changes in the plans' discount rates, and mortality assumptions in 2015 and 2014. During 2015, the Company modified the actuarial mortality assumptions by adjusting mortality tables promulgated by the Society of Actuaries. The 2015 discount rate increase and actuarial mortality assumption change materially decreased the Company’s projected benefit obligation (and decreased the plans' net underfunding) at December 31, 2015 by $860,000 and $684,000, respectively. The 2014 change in discount rate and mortality assumption increased the plans net underfunding by $2,262,000 and $2,947,000, respectively.

The Company estimates, based on preliminary estimates from its actuary, 2016 consolidated pension expense from continuing operations of $168,000 compared to a $98,000 pension credit in 2015. The Company is not required to make pension contributions during 2016. 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 - Defined Contribution Retirement Plan

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 $175,000 in 2015 and $185,000 in 2014.

Note 9 - Contingencies and Environmental Matters

The Company conducts regular internal reviews of its environmental sites. Financial reserves are recorded and adjusted in the Company’s financial statements for expected future expenditures to be incurred to evaluate the costs required to cleanup environmental contamination and perform the necessary remediation at various properties that the Company currently owns or owned, leased or operated in the past.

Note 9 - Contingencies and Environmental Matters (Continued)

In June 2013, the Company executed an agreement to transfer the obligation and responsibility for 20 sites that the Company owned, leased, or operated in the past for which there was believed to be environmental exposure to an independent organization (the Acquirer). The Company made a cash payment to the Acquirer, sold five properties owned by the Company to the Acquirer, and paid an insurance premium to cover third-party liability. As a result of the transaction, the economic burdens and benefits were transferred to the Acquirer; future costs and profits associated with the transferred sites are vested solely with the Acquirer. Under U.S. environmental law, if the Acquirer fails to perform on its assumed clean up obligations, the Company may be liable. However, the Company believes this contingency is remote.

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 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 U.S. EPA to install passive wells to clean up and monitor Company owned property in Ashtabula, Ohio. The Company has been characterizing and remediating its Ashtabula property for many years. From 2011 to 2013, the Company constructed 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, with input from the EPA, construction continued and additional extraction wells were completed. The Company took a charge in the third quarter of 2014 to restore the reserve for this project of $400,000 which the Company believed was adequate to meet its future spending obligation to oversee and manage its testing, maintenance, and monitoring activities.

During 2015, the Company drilled additional extraction wells on the Ashtabula site and incurred drilling and operational costs of $204,000. In addition, the Company paid EPA oversight costs covering a two-year period (through October 2015) of $175,000. Based on input from the Company’s independent environmental consultants and management, the construction of all extraction wells are expected to be completed in 2016, and monitoring of contaminated material extracted by the wells and disposal costs have been reassessed. As a result the Company recorded an environmental provision of $300,000 in the fourth quarter, which increased the Ashtabula site reserve to $615,000, which the Company believes is appropriate given the known facts on the site.

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 $88,000 in 2014 and $31,000 in 2015. The Company believes that its December 31, 2015 environmental reserve of $286,000 for this site is adequate to provide for its future share of future sampling and maintenance costs.

Note 9 - Contingencies and Environmental Matters (Continued)

The Company is liable for two southeastern Michigan Superfund sites that the Superfund groups, of which the Company is a member, had bought out their environmental obligations in a consent decree with Chrysler Corporation and US EPA many years ago. As a result of the Chrysler bankruptcy several years ago, the two sites were returned to the Superfund groups. During 2014, the Superfund groups embarked on in depth studies to determine how to proceed with remediation of the sites. While the evaluation and development of an action plan on the sites has not been completed, the Company's share of the spending for 2015 and 2014 was $75,000 and $142,000, respectively. The remaining reserve on the two sites at December 31, 2015 totaled $818,000 which the Company believes to be appropriate.

A summary of the environmental activity for 2015 and 2014 is as follows:

	2015	2014
Environmental reserve - Beginning of year	$ 1,980,672	$ 1,925,974
Current year environmental provision	300,000	1,000,000
(Less) current year environmental spending	(524,062)	(945,302)
Environmental reserve - End of year.	1,756,610	1,980,672
Current portion	(255,000)	(685,000)
Noncurrent portion	$ 1,501,610	$ 1,295,672

The Company believes, based on current conditions, that its overall reserve at December 31, 2015 is sufficient to address anticipated remediation requirements for known contaminated sites. However, should the scope of remediation requirements change significantly from those currently projected, or if unforeseeable and 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 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, 2015 and 2014.

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, exercised, or forfeited during 2015 or 2014. At December 31, 2015, there were no additional options available for future grants.

At December 31, 2015, 72,000 options were outstanding. The options had a weighted average remaining life of 1.53 years, were exercisable, and are in the money. The per share exercise prices range from $6.50 to $16.00.

The following table summarizes information about stock options outstanding at December 31, 2015:

	Shares Under Option	Weighted Average Remaining Life	Exercise Price
	55,000	0.20	$ 6.50
	1,000	0.34	8.00
	4,000	6.19	14.55
	12,000	6.19	16.00
Total	72,000	1.53	$ 8.55

The aggregate intrinsic value of options outstanding, all of which were exercisable, was approximately $1,184,000 and $1,832,000 at December 31, 2015 and 2014, respectively.

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

The accompanying Management's Discussion and Analysis will include the actual 2015 and 2014 operating results for Detrex Corporation and its remaining subsidiary, The Elco Corporation.

During 2015, the Company reported a pre-tax income of $3.0 million, compared to a pre-tax income from continuing operations of $1.89 million in 2014. The 2015 and 2014 pre-tax operating results included environmental charges of $0.3 million and $1.0 million, respectively. In 2015 the Company realized a state income tax recovery of $0.3 million net of federal income tax due to the settlement of a state tax audit. Company 2015 revenues of $38.9 million represent a decrease of $1.9 million (4.6 percent) compared to 2014. Consolidated 2015 selling, general and administrative (SGA) expenses decreased by $363k compared to 2014.

The Detrex Corporation 2015 net income of $2.3 million compares with the Company's 2014 net income of $981,000. 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 2015 revenues of $38.9 million were due to lower sales of low margin tolling business, and overall sluggish industrial lubricant activity. Gross margins, expressed as a percentage of sales, were 30.4 percent in 2015 compared to 28.9 percent in 2014. The higher 2015 margin percentage resulted principally from product mix and lower manufacturing costs. Elco's 2015 SGA expenses decreased by approximately $363k compared to 2014. Elco's overall operating earnings increased to $5.0 million in 2015 from $4.6 million in 2014.

Detrex's consolidated results from continuing operations for 2015 reflected consolidated SGA expenses of $1.6 million, which was about the same as SGA expenses for 2014.

The 2015 provision for depreciation and amortization was about the same as the 2014 provision. Depreciation and amortization provisions for 2016 are not expected to change significantly from 2015.

The Company's 2015 interest expense of $97,000 for revolving credit and the term loan facilities decreased compared with 2014 interest expense of $169,000 due to reduction in indebtedness and lower interest rates.

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 2015 income tax expense from continuing operations totaled $692,000, which included a $300,000 state income tax recovery net of federal income tax described above. This compares to 2014 income tax provision from continuing operations of $600,000.

Comparative Operating Data

Comparative data includes continuing operations only.

($ in table in thousands)

	2015		2014	
	$	%	$	%
Elco Corporation				
Net sales	38,886	100.0	40,755	100.0
Gross margin	11,828	30.4	11,795	28.9
Selling, general, and administrative expenses	5,544	14.3	5,908	14.5
Depreciation and amortization	1,307	3.4	1,270	3.1
Elco pre-tax income	4,977	12.7	4,617	11.3
Detrex Corporation				
Selling, general, and administrative expenses	1,570	4.0	1,569	3.8
Depreciation and amortization	4	-	4	-
Environmental provision	300	0.8	1,000	2.5
Total consolidated pre-tax income	2,994	7.7	1,886	4.6

During 2015, the Company continued to effectively manage its environmental obligations. 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 $0.5 million in 2015 compared to $0.9 million in 2014. One of the Ohio sites has been in the process of remediation. During 2015, the Company, working with the EPA continued to construct wells on this site. The wells determine the level of contamination and provide a means for remediation. Based on updated forecasted costs to remediate and clean the site the Company recorded a $300,000 environmental provision in the fourth quarter 2015. During 2014, the Company reevaluated two sites 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. However based on input from the Superfund group and higher than estimated construction and related clean-up spending on the Company owned Ashtabula Ohio site, the Company took a $1 million pre-tax environmental charge in the third quarter of 2014.

Company-sponsored defined benefit retirement plans that were frozen several years ago, are materially impacted by changes in actuarial assumptions. During 2014 the long-term interest rate decreased by 75 basis points and the mortality assumptions changed, by adopting new longer-lived mortality tables adopted by the Society of Actuaries in October 2014. 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 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. During 2015 the pensions underfunded position did not materially change compared to 2014. However, the discount rate increased 25 basis points to 4.50% and the 2014 mortality table was adjusted slightly by the Society of Actuaries. The 2015 actuarial assumption changes in the discount rate and mortality decreased the underfunded position by $860,000 and $684,000, respectively at the end of 2015.

Liquidity, Financial Condition, and Capital Resources

During 2015, 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 2015. Significant spending during 2015 included capital expenditures of $1.1 million, environmental spending of $0.5 million and shareholder dividend payments of $1.7 million. During 2014, significant spending included $0.7 million for capital, $0.9 million for environmental, 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 cautious optimism regarding the economic opportunities in the markets that Elco serves. Elco posted another profitable year in 2015 which is expected to continue. Although Elco's 2015 sales were almost $1.9 million lower than 2014 due to an overall sluggish industrial lubricant market, margins remained strong and 2015 pre-tax income totaled $3.0 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 Company's 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. During 2015, the Company continued its efforts to remediate its Company owned site in Ashtabula, Ohio. The Company continued to work with the EPA and has nearly completed the drilling of numerous collection wells to determine the level of contaminated materials that are still on site. The construction and oversight costs to manage the site have been re-evaluated which resulted in an additional $300,000 environmental provision charged against earnings in the fourth quarter of 2015. While management cannot accurately forecast the future impact on its environmental reserve of new environmental laws, regulations, advances in remediation technologies, changes in remediation approaches, additional sites requiring remediation, or the discovery of unanticipated conditions, management believes that the environmental reserve at December 31, 2015 is appropriate. 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 2016 are projected to approximate $0.3 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 the environmental reserve. For further discussion of these matters, see Note 9 to the 2015 consolidated financial statements.

The Company's pension plans cover current and former employees of Detrex Corporation and Elco. The Company recognized pension cost recovery from continuing operations of $96,000 in 2015, $122,000 in 2014, and $67,000 in 2013. In 2014, the pension plans moved to a $3.7 underfunded position due principally to actuarial assumption changes in the discount rate and mortality assumptions. The plan's underfunding status at December 31, 2015 increased slightly from the $3.7 million balance at December 31, 2014. While 2015 pension investment results reported a loss of $0.9 million, 25 basis point increase in the discount rate and change in mortality assumption applied to the pension benefit obligations resulted in little net change to the pension funding status. The annual pension expense is expected to be $168,000 in 2016 due principally to the expected amortization of deferred actuarial investment losses. Company contributions to the pensions for 2015 and 2014 were immaterial. The Company's 2016 pension contributions are also expected to be immaterial. Depending on actual rates of return on the pension investment portfolio, and changes in discount rates, mortality assumptions and other factors, the recorded expense, pension obligations, and funding requirements could change significantly (see Note 7 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 to Elco's profitable businesses. Detrex's 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 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 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, legal or other information becomes available. The Company has $1.8 million accrued for environmental obligations at December 31, 2015 compared to $2.0 million accrued for these obligations at December 31, 2014. These are the Company's best estimates of the future costs with respect to known environmental matters. Management believes that the December 31, 2015 accrued environmental reserve of $1.8 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 (which are reflective of the long-term investment grade corporate bond rates) used to measure the pension benefit obligations, and mortality rates. These assumptions are updated annually and are disclosed in Note 7 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 2015, the pension funding obligation increased slightly; the net underfunded status at December 31, 2015 and 2014 remained at approximately $3.7 million. During 2015, the Company increased the discount rate assumption used to measure the future benefit obligation from 4.25 percent to 4.50 percent and changed the actuarial mortality assumption utilized by U.S. Society of Actuaries in 2014 to the 2015 edition of the mortality tables. The discount rate change decreased the benefit obligation by $0.8 million and the mortality assumption change decreased the benefit obligation by $0.7 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 2015 and 2014. Actual market investment returns or losses (net of plan expenses) were approximately (3.0) percent in 2015 and 6 percent in 2014. Assuming a constant discount rate, if actual rates of return on the pension investment portfolio exceed the 2015 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 recovery 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 expense or recovery 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 4.50 percent and 4.25 percent at December 31, 2015 and 2014, 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

	2015 Quarters				2014 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Thousands of dollars, except per share amounts)							
Net sales – Continuing operations	$ 8,272	$ 9,717	$ 9,955	$ 10,942	$ 9,700	$ 11,136	$ 9,732	$ 10,187
Gross margin on sales – Continuing operations	2,374	2,949	3,175	3,330	2,529	3,113	2,907	3,246
Pre-tax earnings (loss) – Continuing operations (1)	133	840	973	1,048	323	(48)	790	821
Net income – Continuing operations (2)	414	514	662	712	254	(31)	521	542
Net income – Discontinued operations	-	-	-	-	-	-	(304)	-
Net income (2)	414	514	662	712	254	(31)	217	542
Basic earnings per common share attributable to Detrex shareholders:								
From continuing operations	0.25	0.31	0.39	0.42	0.15	(0.02)	0.31	0.33
From discontinued operations	-	-	-	-	-	-	(0.18)	-
Total basic earnings per share	0.25	0.31	0.39	0.42	0.15	(0.02)	0.13	0.33

(1) Includes environmental charge of $300 in the fourth quarter 2015 and $1,000 in the third quarter 2014.
(2) Included in the 4th quarter 2015 is a state income tax recovery of approximately $500 related to the settlement of a state tax audit.

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 2015:

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 $38,886 in 2015 and $40,755 in 2014.

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 34 percent of the Company's 2015 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, 2015 totaled $1.8 million, of which $0.3 million is estimated to be spent in 2015. A more detailed discussion of environmental matters is included in Note 9 to the 2015 consolidated financial statements.

The Company employed 65 persons as of December 31, 2015.

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 2015, Detrex and its subsidiary, Elco conducted manufacturing, research and warehouse operations in several locations, of which two are owned and one is leased.

Manufacturing properties owned at December 31, 2015 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) Facility located on 57 acres in Ashtabula, Ohio is used in connection with the manufacture of hydrochloric acid, sulfurized and zinc-based lubricant additives. The facility is owned by Detrex Corporation and managed by Elco.

FORWARD-LOOKING STATEMENTS

This document, including the letter to shareholders and the 2015 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.

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

SELECTED FINANCIAL DATA
(From continuing operations)

	2015	2014	2013	2012	2011
	(Dollars in thousands, except per share amounts)				
Net sales from continuting operations	$38,886	$40,755	$41,038	$43,406	$48,918
Net income (loss) from continuting operations	2,302	1,286	2,600	(7,011)	2,423
Net income (loss)	2,302	981	2,600	7,708	4,632
Net income (loss) attributable to Detrex	2,302	981	2,600	7,708	4,277
Basic earnings (loss) per common share:					
From continuting operations	1.37	0.77	1.55	(4.18)	1.45
From discontinued operations	0.00	(0.18)	0.00	8.78	1.10
Net earnings (loss) per share attributable to Detrex Corporation	1.37	0.59	1.55	4.60	2.55
Total assets	22,328	23,998	30,163	37,291	54,130
Net working capital	8,395	7,270	8,574	12,206	12,057
Capital expenditures	1,067	686	1,464	1,758	2,304
Total bank debt	3,118	4,348	7,846	106	15,282
Pension plan contributions	25	6	1,673	6,669	1,579
Environmental expenditures	524	945	14,274	2,836	2,216
Stockholders' equity	10,795	10,284	14,351	11,133	9,303
Stockholders' equity per common share	6.4	6.14	8.56	6.64	5.55
Number of employees	65	66	68	65	69
Percentages to net sales:					
Gross margin	30.4%	28.9%	34.3%	34.8%	32.8%
Net income from continuing operations	5.92%	3.15%	6.33%	(16.15%)	4.95%
Net income from continuting operations as a percent of:					
Average total assets	9.94%	4.75%	7.71%	(15.34%)	4.60%
January 1st Detrex stockholders' equity	22.39%	8.96%	23.35%	(75.37%)	33.80%
Current ratio	2.9	2.3	2.0	2.4	1.7

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

EVAN R. VANDERVEER
Co-founder and Managing Partner, Vanshap Capital, LLC,
Arlington, Virginia

AUDIT COMMITTEE

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

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 2015 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

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