Detrex Corporation and Consolidated Subsidiaries

2012 Annual Report

Detrex Corporation and Subsidiaries
Contents

Highlights (1)

	2012	2011
Net sales from continuing operations	$ 43,406,052	$ 48,918,447
Pre-tax income before environmental provision	5,768,389	6,658,744
Environmental provision	15,724,767	2,711,000
Pre-tax income (loss) from continuing operations	(9,956,378)	3,947,744
Net income (loss) from continuing operations	(7,011,455)	2,422,677
Net income from discontinued operations	14,464,666	2,209,110
Net income	7,453,211	4,631,787
Net income attributable to Detrex Corporation (2)	7,708,361	4,277,166
Fully diluted earnings per share attributable to		
Detrex Corporation Shareholders:		
From continuing operations	(4.08)	1.43
From discontinued operations	8.57	1.10
Total	4.49	2.53
Detrex stockholders' equity per common share	6.64	5.55
Additions to land, buildings and equipment		
From continuing operations	1,758,471	2,304,475
Current ratio	2.4	1.7
Number of employees (continuing operations)	65	69

(1) This information should be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis
(2) After attribution of noncontrolling interest in earnings

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:

Our environmental liabilities have long been a source of uncertainty and a significant drain on resources. At year-end we took a $13.9 million charge to earnings for this liability, and recently signed a non-binding letter of intent to transfer a significant portion of these liabilities to a third party. As a result, Detrex is no longer burdened with the recurring and unpredictable earnings impact of the vast majority of our environmental liabilities. We now have a stronger company with improved predictability and sustainability of earnings and cash flow which leads to much improved shareholder value. This charge to earnings and the subsequent pending environmental liability transfer transaction caps a transformative year for our Company. The key initial achievement was the sale of Harvel at the start of the year that opened up a range of opportunities for increasing shareholder value. The sale itself was timely, since it captured the value in Harvel as its markets began to shift away from its core business as a domestic stand-alone pipe supplier, towards global full systems suppliers. In addition, the sale proceeds made it possible to eliminate all bank debt, aggressively fund the pension plans, pay dividends to our shareholders, position Detrex as a true specialty chemicals company, and aggressively pursue solutions to the legacy environmental liabilities. All of this took place against the backdrop of continued solid performance by the Company's remaining subsidiary, The Elco Corporation.

Harvel was sold for approximately $50 million that provided Detrex with net after-tax proceeds of approximately $38 million. Earnings for the year include the resulting after-tax gain of $14.7 million. Detrex sales from continuing operations consist solely of revenue generated by Elco as a result of the Harvel sale. The year-on-year reduction in sales was 11.2% and the Company generated a net loss from continuing operations of $7.0 million, inclusive of pre-tax environmental charges of $15.7 million. Detrex's overall net income, including the net gain on the Harvel sale reported in discontinued operations, was after-tax income of $7.7 million or $4.60 per share compared to $4.3 million or $2.55 per share in 2011.

As a stand-alone operation, Elco has proved to be a very successful company with a skilled team and an attractive product portfolio. During the last three years we have seen solid financial and operational performance from Elco as it concentrates on its strength in niche and custom products, global scope, and up-graded facilities and capabilities. While still representing strong performance, Elco's 2012 sales of $43.4 million are $5.5 million lower than the prior year revenue of $48.9 million. This is largely due to the absence of tolling revenues in 2012, lower sales to a major customer, and overall sluggish industrial lubricant market activity in the second half of the year. Elco's lower 2012 revenues resulted in pre-tax earnings of $8.7 million compared to $10.2 million generated in 2011. Elco's EBITDA for 2012 was a solid $9.8 million. We continued to invest in Elco during the year with capital expenditures of nearly $1.8 million to support future growth initiatives by enhancing technical and production capabilities, and we expect strong performance in the years to come as customer interest in our products continues to grow.

In 2012, the Company engaged nationally recognized consultants who have deep expertise in assessing and estimating the overall cost for transferring the liability for a portfolio of environmentally contaminated sites to a third party. Our objective in doing so was to attempt to place a well-defined upper limit on this liability that historically has been difficult to quantify. As part of this evaluation process, we contacted firms that engage in the business of assuming, and managing to completion, environmental liabilities from others. This in turn led to thorough discussions and negotiations with one firm, and we recently signed a non-binding letter of intent to enter into an environmental liability transfer transaction with them. The cost for pursuing this transaction coincides closely with the estimate that the Company and its consultants developed for the cost to transfer the liability for most of our portfolio of environmentally contaminated sites. Based on this analysis and the pending transaction, the current estimated total cost to clean up our contaminated sites is $17.0 million, which required a fourth quarter pre-tax environmental charge of $13.9 million ($9.1 million after tax) to bring the reserve up to this estimate. This charge to earnings and increase in the balance sheet reserve is intended to eliminate the need for additional charges against earnings in the foreseeable future. The Company has the ability to fund the discharge of this liability over a period of many years or in the form of a risk transfer transaction as described above. The source of funds will be free cash flow from operations in combination with cash reserves and debt, if required. The Company views this as a positive step that will unlock shareholder value because the future earnings are not expected to be burdened by ongoing charges to replenish the environmental reserve, and investors will have more clarity on Detrex's operating results and the environmental liability. To illustrate this point, we would have had pre-tax operating income in 2012 of $5.8 million if this transaction along with the large environmental charge had taken place in prior years. Also, this transaction will enable us to use tax credits against significant tax payments already made.

The underfunded status of the pension plans decreased in 2012 to approximately $4 million, principally due to a $5.0 million discretionary pension contribution in addition to normal contributions of $1.7 million. The effect of the large cash contributions was partially offset by a one percent reduction in the discount rate used for calculating the plan liabilities. The Harvel pension plan was assumed by the buyer in connection with the sale and is not recognized as part of the pension obligation from continuing operations on the 2012 or 2011 balance sheets. We anticipate continuing to fund the pension plans in 2013 with contributions of at least $1.6 million.

The major cash outlays for the year were Elco capital expenditures of $1.8 million, pension funding of $6.7 million, environmental spending of $2.8 million, and shareholder dividends totaling $6.7 million. As previously noted, we fully paid down the bank debt ($15.3 million) in the beginning of January 2012. The Company has secured a new $5 million term loan and $5 million revolving credit facility with JPMorgan Chase; the Company has not borrowed against its new credit facility.

The achievements in 2012 marked a significant step in our quest to effectively position Detrex to deliver shareholder value. Not only did we achieve strong operational and financial results but, we also succeeded in capturing the value in Harvel. During the year, we were able to enhance shareholder value through a combination of paying dividends and providing greater clarity on environmental and pension liabilities as well as overall balance sheet liabilities, thereby providing a more easily understood and transparent picture of the Company's health and prospects. We will use this as a base to continue to evaluate and embrace strategic opportunities to generate shareholder value, and we look forward to sharing positive progress with you.

Thomas E. Mark	William C. King
President & CEO	Chairman

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Independent Auditor's Report

To the Board of Directors
Detrex Corporation and Consolidated Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of Detrex Corporation and its subsidiaries (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Detrex Corporation and its subsidiaries at December 31, 2012 and 2011 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

April 17, 2013

Detrex Corporation and Subsidiaries
Consolidated Statements of Operations

	Year Ended December 31	
	2012	2011
Net Sales	$ 43,406,052	$ 48,918,447
Cost of sales (exclusive of depreciation)	28,282,357	32,877,601
Selling, general, and administrative expenses	8,502,733	7,868,619
Provision for depreciation and amortization	1,081,155	1,032,540
Provision for corporate environmental reserve	15,724,767	2,711,000
Other income - Net	(215,045)	(42,810)
Interest (income) expense - Net	(29,363)	493,232
Loss from asset disposals	15,826	30,521
(Loss) Income Before Income Taxes	(9,956,378)	3,947,744
Provision for income taxes (recovery)	(2,944,923)	1,525,067
Net Income (Loss) from Continuing Operations	(7,011,455)	2,422,677
Discontinued Operations		
Income from operation and sale of Harvel Plastics, Inc. - Net of income tax	14,464,666	2,209,110
Net Income	7,453,211	4,631,787
Net (Income) Loss Attributable to Noncontrolling Interest	255,150	(354,621)
Net Income attributable to Detrex Corporation	**$ 7,708,361**	**$ 4,277,166**
Amount Attributable to Detrex Corporation Common Shareholders:		
Income (loss) from continuing operations, net of tax	$ (7,011,455)	$ 2,422,677
Discontinued operations, net of tax	14,719,816	1,854,489
Net Income attributable to Detrex Corporation	**$ 7,708,361**	**$ 4,277,166**
Basic Earnings (Loss) Per Common Share:		
From continuing operations attributable to Detrex Corp. shareholders	$ (4.18)	$ 1.45
From discontinued operations attributable to Detrex Corp. shareholders	8.78	1.10
Net earnings per share attributable to Detrex Corp. shareholders	**$ 4.60**	**$ 2.55**
Fully Diluted Earnings (Loss) Per Common Share:		
From continuing operations attributable to Detrex Corp. shareholders	$ (4.08)	$ 1.43
From discontinued operations attributable to Detrex Corp. shareholders	8.57	1.10
Net earnings per share attributable to Detrex Corp. shareholders	**$ 4.49**	**$ 2.53**
Number of Shares Outstanding, basic	1,675,939	1,675,939
Number of Shares Outstanding, fully diluted	1,717,568	1,692,296

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net Income (Including Noncontrolling Interest)	$ 7,453,211	$ 4,631,787
Other Comprehensive Income (Loss) - Net of tax		
Defined benefit pension plans		
Net loss	(776,083)	(2,667,328)
Settlement of Harvel pension plan	1,701,003	-
Total defined benefit pension plans	924,920	(2,667,328)
Other Comprehensive Income (Loss)	924,920	(2,667,328)
Comprehensive Income	8,378,131	1,964,459
Less Comprehensive Loss Attributable to Noncontrolling Interest	-	(254,565)
Comprehensive Income Attributable to Detrex Corporation	**$ 8,378,131**	**$ 1,709,894**

Detrex Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31 2012	December 31 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 4,010,683	$ 800,887
Investments	3,037,134	-
Accounts receivable - Net of allowance for uncollectible accounts of $25,000 in 2012 and $38,000 in 2011	4,507,259	3,943,577
Inventories	5,604,668	6,429,281
Prepaid expenses and other	385,728	878,619
Deferred income taxes	905,000	1,011,000
Sale proceeds held in escrow	2,550,000	-
Assets held for sale	-	16,039,226
Total Current Assets	21,000,472	29,102,590
Property and Equipment		
Land	705,810	706,139
Buildings and improvements	8,967,898	9,008,782
Machinery and equipment	17,242,404	16,349,749
Construction in progress	616,768	449,489
	27,532,880	26,514,159
Less allowance for depreciation and amortization	17,100,261	16,741,530
Property and Equipment - Net	10,432,619	9,772,629
Deferred Income Taxes	5,105,456	5,996,847
Other Assets	752,724	708,097
Assets Held for Sale	-	8,549,437
Total Assets	**$ 37,291,271**	**$ 54,129,600**
Liabilities and Equity		
Current Liabilities		
Revolving credit facility	$ -	$ 3,663,088
Current portion of long-term debt	-	1,250,000
Current portion of capital lease obligation	37,441	35,171
Accounts payable	2,827,369	2,861,103
Current portion of environmental reserve	3,600,000	2,165,000
Accrued compensation	382,655	945,354
Other accruals	1,947,051	1,328,474
Liabilities on assets held for sale	-	4,797,171
Total Current Liabilities	8,794,516	17,045,361
Long-Term Debt, Net of current portion	-	10,368,750
Long-Term Portion of Capital Lease Obligation	6,472	43,912
Pension Obligations	3,957,497	8,977,115
Environmental Reserve	13,400,195	1,946,142
Liabilities on Assets Held for Sale	-	3,824,782
Equity:		
Detrex Corporation Shareholders' Equity:		
Common capital stock, $2 par value, authorized 4,000,000 shares, outstanding 1,675,939 shares	3,351,878	3,351,878
Additional paid-in capital	935,108	779,730
Retained earnings	17,194,451	16,189,846
Accumulated other comprehensive loss	(10,348,846)	(11,018,616)
Total Detrex Corporation Shareholders' Equity	11,132,591	9,302,838
Noncontrolling interest	-	2,620,700
Total Equity	11,132,591	11,923,538
Total Liabilities and Equity	**$ 37,291,271**	**$ 54,129,600**

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiaries
Consolidated Statements of Equity

	Detrex Corporation Shareholders						Noncontrolling Interest			
	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Controlling Interest	Noncontrolling Interest	Accumulated Other Comprehensive Income (Loss)	Total Noncontrolling Interest	Total Equity
Balance - January 1, 2011	$ 3,166,828	$ -	$ 536,530	$ 11,912,680	$ (8,451,344)	$ 7,164,694	$ 3,136,229	$ (155,094)	$ 2,981,135	$ 10,145,829
Net income	-	-	-	4,277,166	-	4,277,166	354,621	-	354,621	4,631,787
Other comprehensive income	-	-	-	-	(2,567,272)	(2,567,272)	-	(100,056)	(100,056)	(2,667,328)
Stock option exercise	185,050	-	243,200	-	-	428,250	-	-	-	428,250
Dividends	-	-	-	-	-	-	(615,000)	-	(615,000)	(615,000)
Balance - December 31, 2011	3,351,878	-	779,730	16,189,846	(11,018,616)	9,302,838	2,875,850	(255,150)	2,620,700	11,923,538
Net income	-	-	-	7,708,361	-	7,708,361	(255,150)	-	(255,150)	7,453,211
Other comprehensive income	-	-	-	-	669,770	669,770	-	255,150	255,150	924,920
Stock-based compensation expense	-	-	103,560	-	-	103,560	-	-	-	103,560
Stock option redemptions	-	-	(180,250)	-	-	(180,250)	-	-	-	(180,250)
Excess tax benefit of stock compensation expense	-	-	232,068	-	-	232,068	-	-	-	232,068
Elimination of noncontrolling interest in connection with sale of subsidiary	-	-	-	-	-	-	(2,620,700)	-	(2,620,700)	(2,620,700)
Dividends	-	-	-	(6,703,756)	-	(6,703,756)	-	-	-	(6,703,756)
Balance - December 31, 2012	**$ 3,351,878**	**$ -**	**$ 935,108**	**$ 17,194,451**	**$(10,348,846)**	**$ 11,132,591**	**$ -**	**$ -**	**$ -**	**$ 11,132,591**

Detrex Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	2011
Cash Flows from Operating Activities		
Net Income	$ 7,453,211	$ 4,631,787
Adjustments to reconcile net income to net cash from operating activities:		
Income from discontinued operations	(14,464,666)	(2,209,110)
Depreciation and amortization	1,081,155	1,032,540
Loss on disposal of property and equipment	15,826	30,521
Provision for uncollectible receivables	(13,000)	38,000
Stock-based compensation expense	103,560	-
Deferred income taxes	(2,199,000)	1,399,000
Environmental reserve provision	15,724,767	2,711,000
Pension expense	232,039	205,189
Changes in operating assets and liabilities which provided (used) cash:		
Investments	(37,134)	-
Accounts receivable	(550,682)	(603,757)
Inventory	824,613	(1,891,753)
Prepaid expenses and other	(170,778)	(680,897)
Other assets	(44,627)	(77,824)
Accounts payable	(33,734)	452,323
Environmental reserves	(2,835,714)	(2,215,862)
Pension obligations	(6,668,772)	(1,578,749)
Accrued and other liabilities	(1,945,361)	586,961
Net cash (used in) provided by operating activities of continuing operations	(3,528,297)	1,829,369
Net cash (used in) provided by operating activities of discontinued operations	(4,813,000)	4,460,166
Net cash (used in) provided by operating activities	(8,341,297)	6,289,535
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,758,471)	(2,304,475)
Proceeds from disposition of property and equipment	1,500	3,000
Purchases of investments	(3,000,000)	-
Net cash used in investing activities of continuing operations	(4,756,971)	(2,301,475)
Net cash provided by (used in) investing activities of discontinued operations	37,733,232	(2,146,353)
Net cash provided by (used in) investing activities	32,976,261	(4,447,828)
Cash Flows from Financing Activities		
Payments on debt - net	(15,317,008)	(1,424,850)
Proceeds from exercise of stock options	-	428,250
Stock option redemptions	(180,250)	-
Excess tax benefit of stock compensation expense	232,068	-
Dividends paid	(6,703,756)	-
Net cash used in financing activities of continuing operations	(21,968,946)	(996,600)
Net cash used in financing activities of discontinued operations	-	(667,500)
Net cash used in financing activities	(21,968,946)	(1,664,100)
Net Increase in Cash and Cash Equivalents	2,666,018	177,607
Cash and Cash Equivalents - Beginning of year	1,344,665	1,167,058
Cash and Cash Equivalents - End of year	**$ 4,010,683**	**$ 1,344,665**

Detrex Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	2011
Balance Sheet Presentation of Cash and Cash Equivalents		
Cash and cash equivalents - Continuing operations	$ 4,010,683	$ 800,887
Assets held for sale - Discontinued operations	-	543,778
Total	**$ 4,010,683**	**$ 1,344,665**
Supplemental Cash Flow Information - Cash paid during the year for:		
Interest	$ 143,438	$ 384,648
Income taxes	4,813,000	124,000

See Notes to Consolidated Financial Statements.

Detrex Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1 - Nature of Business and Customer Concentration

Detrex Corporation and its subsidiaries (the "Company") manufacture products predominantly for use in the industrial manufacturing and commercial construction industries. The principal products include specialty chemicals including petroleum additives and high purity hydrochloric acid manufactured by The Elco Corporation ("Elco"), and PVC and CPVC plastic pipe, duct and shapes produced by Harvel Plastics, Inc. ("Harvel").

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 resulting in an after-tax pension charge of $1.7 million and an after-tax gain on sale of $16.2 million. As a result of the sale, Harvel's financial position and operating results are reported as discontinued operations in the Company's 2012 and 2011 consolidated financial statements.

The Elco business operates in highly competitive markets which are mainly national in scope, although approximately 31 percent of the Company's total net revenue in 2012 and 22 percent in 2011 was generated outside the United States. Generally, for all 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 30 percent of the Company's consolidated revenues from continuing operations in 2012 and 33 percent in 2011 from continuing operations; the loss of one or more of these significant customers could materially adversely impact operating results. Accounts receivable from those customers were approximately $1.3 million and $0.7 million at December 31, 2012 and 2011, respectively.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statements

The consolidated financial statements comprise those of the Company and its subsidiaries. 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.

The noncontrolling interest at and for the year ended December 31, 2011 represents Harvel's ownership interest not owned by the Company.

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 invests some of its cash reserves in certain fixed income publicly traded mutual funds that have a short maturity duration. The securities are mark to market and are carried in the December 31, 2012 balance sheet at their fair value as a current asset. In addition, the Company funds a non-qualified deferred compensation obligation with publicly traded fixed income and equity mutual funds which are carried at fair value as non-current assets (in other assets). The fair value of the investments amounted to $3,401,000 and $284,000 at December 31, 2012 and 2011, respectively. The Company recorded income before income taxes on these investments of $69,853 in 2012 and $8,429 in 2011. See Note 7 for a description of the fair value on the investments.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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. Equipment accounted for as capital leases is amortized over the estimated useful life of the asset.

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

Research and Development

Research and development costs are charged to operations as incurred, and approximated $504,000 for 2012 and $539,000 for 2011.

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, 2012, all 76,000 outstanding options were vested and were in-the-money; the potential dilution was 41,629 shares and resulted in an eleven cent per share dilution of earnings per share for net income attributable to Detrex Corporation. At December 31, 2011, all 70,000 outstanding options were vested and were in-the-money, the potential dilution was 16,357 shares and resulted in a two cent per share dilution on earnings per share.

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 equity section of the consolidated balance sheet. Such items, along with net income (loss), are considered components of comprehensive income (loss).

Note 2 - Summary of Significant Accounting Policies (Continued)

Changes in the components of accumulated other comprehensive income (loss) for the years ended 2012 and 2011 are as follows:

	Pension Plan Adjustments	Accumulated OCI Attributed to Noncontrolling Interest
Balance at January 1, 2011	$ (8,451,344)	$ (155,094)
Change for 2011 (1) (2)	(2,567,272)	(100,056)
Balance at December 31, 2011	(11,018,616)	(255,150)
Change in 2012 due to Harvel Sale (3)	1,445,853	255,150
Other Change for 2012 (1)	(776,083)	-
Balance at December 31, 2012	$ (10,348,846)	$ -

(1) Change in pension plan related Accumulated Other Comprehensive Income (Loss) is net of tax of $641,033 in 2012 and $1,322,534 in 2011.

(2) Change in pension plan related Accumulated Other Comprehensive Income (Loss) attributed to noncontrolling interest is net of tax of $51,544 in 2011.

(3) Change in pension plan related Accumulated Other Comprehensive Income (Loss) is net of tax of $744,833 and change in pension plan related Accumulated Other Comprehensive Income (Loss) attributed to noncontrolling interest is net of tax of $131,440.

During 2012, the Company adopted new guidance related to the presentation of comprehensive income in the financial statements. Among other changes, the new guidance eliminated the prior option to only present comprehensive income in the statement of equity. The Company has elected to report comprehensive income in a separate statement of comprehensive income that begins with net income. The change in presentation has been applied retrospectively and the 2011 financial statements have been restated to conform to the new presentation method. Other than the changes in the presentation of comprehensive income and related disclosures, the new guidance did not have a material effect on the consolidated financial statements.

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 subsidiaries. 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 subsidiaries under which payments are made to, or amounts are received from, the subsidiaries based on the subsidiaries' share of the consolidated group's federal income tax liability. Amounts due to or from the subsidiaries for federal income taxes are reported as income taxes payable or receivable.

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 7 for further discussion of fair value measurements.

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 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 10 concerning environmental matters.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 17, 2013, 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:

	2012	2011
Raw materials	$ 1,737,861	$ 2,477,266
Finished goods	3,866,807	3,952,015
Total inventory	$ 5,604,668	$ 6,429,281

Note 4 - Capital and Operating Leases

Capitalized leased assets included in machinery and equipment at December 31 are as follows:

	2012	2011
Machinery and equipment	$ 167,581	$ 167,581
Accumulated amortization	(70,080)	(64,494)
Leased assets, net	$ 97,501	$ 103,087

The capital lease obligation of $43,913 at December 31, 2012 represents the present value of the future minimum lease payments ending in 2014.

Rent expense applicable to operating leases, primarily for facility and equipment rental, approximated $127,000 for 2012 and $130,000 for 2011.

Note 5 - Revolving Credit Agreement and Long-Term Debt

The Company has a revolving credit and long-term financing arrangement with its principal lender, JPMorgan Chase Bank, N.A. ("Chase"). The Company retired all outstanding indebtedness in early January 2012 from the proceeds of the Harvel sale. Concurrently, the Company entered into another credit arrangement with Chase that provides a $5 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, 2012 amounted to $106,000 and expire at various dates in 2013. At December 31, 2012 there was no outstanding indebtedness. The credit facilities for the revolver and long-term debt charge interest at one-half percent below the bank's prime lending rate (actual borrowing rate of 2.75 percent at December 31, 2012). The amounts outstanding for the revolving credit facility and the current and non-current portions of long-term debt in the December 31, 2011 consolidated balance sheet represent actual amounts due under the previous lending arrangement. However, as disclosed above, the Company retired all of its indebtedness in early 2012. Future borrowings under the new 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.

The weighted average interest rate for all borrowings for the year ended December 31, 2011 was 2.8 percent. Interest expense for 2012 is immaterial.

Note 6 - Income Taxes

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

	2012	2011
Current:		
Federal	$ (713,376)	$ 64,000
State and local	(32,547)	62,067
Total current	(745,923)	126,067
Deferred:		
Federal	(2,154,000)	1,297,000
State and local	(45,000)	102,000
Total deferred	(2,199,000)	1,399,000
Total provision for (recovery of) income taxes	$ (2,944,923)	$ 1,525,067

Income taxes from discontinued operations totaled $9,190,350 for 2012 and $1,280,691 for 2011.

Note 6 - Income Taxes (Continued)

Deferred tax assets (liabilities) at December 31, 2012 and 2011 relate to the following temporary differences and carryforwards:

	2012	2011
Deferred tax assets:		
Environmental	$ 5,994,623	$ 1,504,651
Pension benefits	1,332,049	2,812,755
Inventory related	81,244	151,001
Net operating loss carryforward	-	2,516,321
Alternative minimum tax credit carryforward	-	677,103
Other	234,705	417,614
Gross deferred tax assets	7,642,621	8,079,445
Deferred gain	(644,137)	-
Property and depreciation	(898,176)	(1,256,883)
Other	(89,852)	185,285
Gross deferred tax liabilities	(1,632,165)	(1,071,598)
Net deferred tax asset	$ 6,010,456	$ 7,007,847

During 2012 the Company utilized all of its net operating loss and alternative minimum tax credit carryforwards.

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:

	2012	2011
Expected tax provision (recovery)	$ (3,385,168)	$ 1,342,231
State and local income taxes - Net of federal tax benefit	(51,181)	130,724
Nondeductible expenses and adjustment to prior year estimate - Net	491,426	52,112
Actual income tax provision	$ (2,944,923)	$ 1,525,067

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 by the Internal Revenue Service through the 2005 tax year. With few exceptions, the Company is no longer subject to income tax examinations before 2009.

Note 7 - 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, 2012 and 2011 and the techniques used by the Company to determine those fair values in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*. Disclosures also apply to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. FASB ASC 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.

In general, 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 consists of mutual funds, exchange-traded funds, and money market funds totaling approximately $3,401,000 at December 31, 2012 and $284,000 at December 31, 2011, classified as follows on the consolidated balance sheet:

	2012	2011
Investments (current assets)	$ 3,037,000	$ -
Other assets (noncurrent assets)	364,000	284,000
Total	$ 3,401,000	$ 284,000

The Company had no financial assets valued using Level 2 or Level 3 inputs during 2012 or 2011.

See Note 9 for discussion of the fair value of the pension plan assets.

Note 8 - Parts Cleaning Technologies Exit

The Company exited its Parts Cleaning Technologies ("PCT") segment in 2001-2002. Properties relating to this discontinued segment are classified as other noncurrent assets, as they are remediated and prepared for ultimate disposition. At December 31, 2012 and 2011, the net carrying value of the other remaining PCT properties was approximately$200,000 and $250,000, respectively.

The Company has reserves for estimated costs associated with the studying, sampling, and cleanup of the former PCT properties, which have varying degrees of chlorinated solvent contamination. See Note 10 regarding Environmental Matters.

Note 9 - Pension and Other Postretirement Benefit Plans

The Company and its subsidiaries 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.

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

As discussed in Note 1, the Harvel subsidiary is reclassified as a discontinued operation and as assets held for sale in the 2011 financial statements. Accordingly, the pension plan disclosures have been adjusted to segregate the impact of Harvel as a discontinued operation.

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 in 2012 and 2011 were as follows:

	2012	2011
Pension contributions:		
Continuing operations (including $5 million discretionary 2012 contribution)	$ 6,668,772	$ 1,578,749
Discontinued operations	-	272,000
Total	$ 6,668,772	$ 1,850,749

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, is as follows:

		Actual Allocation	
	Target Range	2012	2011
Equity securities	40-70%	38.0 %	43.9 %
Debt securities	30-50%	58.8 %	45.2 %
Cash equivalents	0-10%	3.2 %	10.9 %
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, state and local municipal bonds, and U.S. Treasuries.

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

The following fair value of plan assets information includes only pension assets from continuing operations because the Harvel pension plan was divested as part of the Harvel sale. The fair value of plan assets by category is as follows:

Fair Value Measurements at December 31, 2012

	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 and cash equivalents	$ 932,219	$ -	$ 932,219	$ -
Mutual funds institutional equity (b)	3,866,624	3,866,624	-	-
Mutual funds institutional international equity (c)	221,863	221,863	-	-
Exchange traded funds equity (d)	4,214,303	4,214,303	-	-
Exchange traded funds international equity (e)	1,187,363	1,187,363	-	-
Exchange traded funds fixed income (f)	1,312,327	1,312,327	-	-
Mutual funds institutional fixed income (g)	15,357,836	15,357,836	-	-
Annuity contracts	281,064	-	281,064	-
Limited partnership interest (h)	1,454,571	-	-	1,454,571
Total	$ 28,828,170	$ 26,160,316	$ 1,213,283	$ 1,454,571

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

Fair Value Measurements at December 31, 2011

	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	$ 2,362,231	$ -	$ 2,362,231	$ -
Common stocks (a)	13,934	13,934	-	-
Mutual funds institutional equity (b)	4,490,049	4,490,049	-	-
Mutual funds institutional international equity (c)	214,380	214,380	-	-
Exchange traded funds equity (d)	2,701,544	2,701,544	-	-
Exchange traded funds international equity (e)	683,764	683,764	-	-
Exchange traded funds fixed income (f)	1,177,624	1,177,624	-	-
Mutual funds institutional fixed income (g)	8,338,582	8,338,582	-	-
Annuity contracts	301,440	-	301,440	-
Limited partnership interest (h)	1,415,134	-	-	1,415,134
Total	$ 21,698,682	$ 17,619,877	$ 2,663,671	$ 1,415,134

(a) Common stocks include mostly large and mid cap domestic equities

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

(c) Investment in Chinese-based issues

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

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

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

(g) Invests primarily in institutional core fixed income, high yield bond fund, short and mid-term bonds, and global corporate bond funds

(h) Opportunistic hedge fund employing multiple strategies including credit hedging, long/short investing, arbitrage, event-driven investing, and other multi-strategy investing

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

The following table sets forth a summary of the changes in the fair value of the pension plans' Level 3 investment assets for the years ended December 31, 2012 and 2011.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2012	2011
Beginning balance	$ 1,415,134	$ 1,435,392
Unrealized gains (losses)	39,437	(20,258)
Ending balance	$ 1,454,571	$ 1,415,134

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

Year Ending December 31	Amount
2013	$ 2,057,213
2014	2,034,974
2015	2,077,236
2016	2,071,928
2017	2,003,262
2018-2022	11,041,220

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

	2012	2011
Change in Projected Benefit Obligation		
Benefit obligation at January 1	$ 30,675,797	$ 29,710,483
Interest cost	1,517,467	1,634,134
Actuarial gain	(642,241)	(132,713)
Benefits paid in measurement year	(2,017,973)	(2,073,964)
Change in actuarial assumption	3,252,617	1,537,857
Benefit obligation at December 31	$ 32,785,667	$ 30,675,797
Change in Plan Assets		
Fair value of assets at January 1	$ 21,698,682	$ 22,390,544
Actual return on assets	2,478,689	(196,647)
Contributions	6,668,772	1,578,749
Benefits paid in measurement year	(2,017,973)	(2,073,964)
Fair value of assets at December 31	$ 28,828,170	$ 21,698,682
Funded Status as of December 31	$ (3,957,497)	$ (8,977,115)
Items Not Yet Recognized as a Component of Net Periodic Pension Cost - Unrecognized net loss		
Unrecognized net loss from continuing operations	$ 15,921,302	$ 14,504,186
Unrecognized net loss from discontinued operations	-	2,577,276
Total unrecognized net loss	$ 15,921,302	$ 17,081,462

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

	2012	2011
Net Periodic Pension Cost		
Interest cost	$ 1,517,467	$ 1,634,133
Expected return on assets	(1,876,202)	(1,859,022)
Net amortization	590,774	430,078
Net periodic pension cost from continuing operations	232,039	205,189
Net periodic pension cost (benefit) from discontinued operations	2,577,276	(95,780)
Net periodic pension cost	$ 2,809,315	$ 109,409
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Asset investment (gain) loss	$ (602,486)	$ 2,054,091
Change in discount rate assumption	3,252,617	1,537,857
Amortization of net loss	(590,774)	(430,078)
Experience gain	(642,241)	(132,713)
Total recognized in other comprehensive income from continuing operations	1,417,116	3,029,157
Total recognized in other comprehensive income from discontinued operations	(2,577,276)	1,012,249
Total recognized in other comprehensive income	$ (1,160,160)	$ 4,041,406
Total recognized in net period benefit cost and other comprehensive income	$ 1,649,155	$ 4,150,815

At December 31, 2012 and 2011, the net unfunded status of the pension plans of continuing operations of $3,957,497 and $8,977,115 respectively, is presented on the consolidated balance sheet for those dates as a non-current pension liability. 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 2013 is $659,177.

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

	2012	2011
Discount rate	4.25 %	5.25 %
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:

	2012	2011
Discount rate	5.25 %	5.75 %
Expected rate of return on plan assets	7.50 %	8.50 %

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.

Note 9 - Pension and Other Postretirement Benefit Plans (Continued)

Summary information for pension plans from continuing operations in underfunded status is as follows (amount in millions):

	December 31	
	2012	2011
Projected benefit obligation	$ 32.8	$ 30.7
Accumulated obligation	32.8	30.7
Fair value of plan assets	28.8	21.7

The Company contributed $6,668,772 in 2012 and $1,578,749 in 2011, respectively, to its pension plans from continuing operations. The pension investment portfolios realized net gain of 9.80 percent in 2012 and a net loss of 0.80 percent in 2011. The plan reduced the discount rate by 1.00 percent in 2012 and by 0.50 percent in 2011. The mixed investment results and contribution made coupled with the reduction in the plans' discount rates in 2012 and 2011, along with the the 2012 divestiture of Harvel and its pension plan, were the principal factors in the decrease in the plans' underfunded status.

The Company estimates, based on preliminary estimates from its actuary, 2013 consolidated pension credit from continuing operations of $22,000 compared to a $232,000 pension expense in 2012. Cash contributions to the pension plans for 2013 are expected to be approximately $1,672,000. In future years, assuming a constant discount rate, if actual rates of return on the pension portfolio exceed the expected 7.5% 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.

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 $203,000 in 2012 and $421,000 in 2011, including $239,000 in 2011 from discontinued operations.

Note 10 - 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. Most of the properties were sold or the leases terminated many years ago. Evaluation and remediation have been completed on a number of sites; but are ongoing on several sites. In some cases, the methods of remediation remain to be agreed upon. However, the Company expects to continue to incur significant professional fees, expenses, and capital expenditures in connection with its environmental compliance and cleanup efforts.

Note 10 - Contingencies and Environmental Matters (Continued)

The Company conducts regular reviews of its environmental matters and has made provisions in its financial statements for these matters. During 2012, in an effort to aggressively determine the costs and settle its environmental obligations, the Company engaged nationally recognized environmental consultants to assess and measure Detrex's environmental liability exposure on a large number of sites currently or previously owned, leased or utilized by Detrex or its previously owned subsidiaries. The consultants, working with significant current and historical data, were to make an independent determination of the financial costs required to clean-up the sites and develop a comprehensive estimate of a charge that a third party would require to assume Detrex's obligation for managing and cleaning-up the various sites, thereby relieving Detrex of its on-going clean-up obligation on those sites. The transfer cost could be greater than management's existing environmental reserve estimates. In addition, there are several other sites (all of which are under the supervision of the United States Environmental Protection Agency (EPA) or its state counterpart), for which Detrex would retain its obligation for clean-up, and periodic monitoring and maintenance.

As a result of the in-depth studies and evaluation set forth above and in light of the Company's 2012 environmental spending of $2.8 million (excluding a final $250,000 installment payment to the EPA to settle the EPA's previous year's settlement on another site), the Company recorded a pre-tax charge to the environmental reserve of $15.7 million. The post environmental charge reserve at December 31, 2012 totaled $17 million of which $3.6 million would be spent during 2013 in the absence of an environmental liability transfer transaction. The Company believes that the recorded environmental reserve at December 31, 2012 is the best estimate of the long-term costs to remediate contaminated properties or other potentially contaminated properties for which Detrex is a likely responsible party.

During 2011, the Company spent approximately $2.5 million for environmental matters, including a $250,000 installment payment on a site settled with the EPA for $1 million in 2009. The environmental reserves at December 31, 2011 totaled $4.1 million (including the $3.2 million reserved for former Company occupied properties described below). In addition, the Company classified the final $250,000 EPA settlement payment as accounts payable at December 31, 2011. For 2012, the Company expected to spend approximately $2.4 million.

The Company's evaluation of its environmental obligation with the assistance of nationally recognized environmental experts was completed near the end of 2012 and resulted in a much deeper and more accurate assessment than was previously possible, with charges to earnings and end of year environmental reserves evaluated for individual sites. The in depth evaluation resulted in the $15.7 million charge to 2012 earnings and the $17 million environmental reserve described above. The following paragraphs described some of the more significant sites and the charges to earnings and end of year environmental reserves recorded.

The remediation of the Fields Brook in Ashtabula, Ohio was completed by the Fields Brook Action Group (FBAG) in 2002. Subsequently, additional contamination was discovered and additional clean-up efforts have been made. In 2012, the Company's share for these clean-up costs was $111,875. The Company has recorded a 2012 environmental charge of $403,095 which results in an environmental reserve of $500,000 at December 31, 2012 to provide for its future share of future sampling and maintenance costs.

The Company has been characterizing and remediating its owned Ashtabula, Ohio property for many years. In 2011, additional contamination was discovered at the site, which required a significant cleanup effort. The Company recorded a 2011 cleanup charge of $600,000 and spent $943,000 in 2011. Construction to complete the clean-up and to excavate and place extraction wells at the Ashtabula site was continued through 2012 at a cost of $758,000, including significant EPA staff oversight charges. Based on the 2012 spending expectation that cost for cleanup activities will continue on this site, the Company has recorded a 2012 environmental charge of $1.4 million which resulted in an environmental reserve of $1 million at December 31, 2012.

Note 10 - Contingencies and Environmental Matters (Continued)

The Company is a party to an EPA supervised contaminated site in northeast Ohio where contamination was discovered many years ago. As a result of the intense 2012 environmental review, the Company recorded a pre-tax environmental charge of $1.17 million. Spending on this site during 2012 was $85,000 and the resulting environmental reserve for this site was increased to $1.2 million at December 31, 2012 compared to $113, 000 at December 31, 2011.

The Company has established significant reserves for estimated costs associated with the studying, sampling, and cleanup of the former company occupied properties, which have varying degrees of chlorinated solvent contamination. As a result of more aggressive investigation during 2012, more significant contamination was discovered at three of the sites than was identified in previous years. The Company spent approximately $1.5 million in 2012 and $1.1 million in 2011 toward remediation efforts on these sites. As a result of the more intensive independent evaluation of these sites, a pre-tax environmental charge of more than $8.4 million was made in the 2012 financial statements. Total 2012 environmental charges for all of the former Company occupied sites (including the three described above) amounted to $11.8 million. This compares to a 2011 environmental charge for all those properties of $2 million. At December 31, 2012, $13.4 million remained in the environmental reserve for completion of the closure process or transfer of Detrex's environmental obligation to an independent third party for these sites and several other properties.

The Company believes, based on current conditions, that its overall reserve levels 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. While the $17 million environmental reserve recorded as of December 31, 2012 is adequate, 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 subsidiaries. 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 11 - 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, 2012 and 2011.

Note 12 - 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.

Note 12 - Stock Purchase Rights (Continued)

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 13 - Stock Options

The Company sponsors two stock option plans, a 1993 Management Plan and a 2006 Stock Option Plan, available for the company's executive employees and directors. During 2012 the remaining 20,000 options were granted under the 2006 Stock Option Plan. All of these options vested immediately. At December 31, 2012, there were no additional options available for future grants under either option plan.

A summary of the fixed stock option grants outstanding under the 2006 Stock Option Plan and the 1993 Management Plan as of December 31, 2012 and 2011 and changes during the years is presented below.

	1993 Management Plan		2006 Plan	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
2011				
Outstanding at beginning of year	17,000	$ 4.00	166,000	$ 5.92
Granted	-	-	-	-
Exercised	11,000	4.00	90,000	5.08
Forfeited	6,000	4.00	6,000	6.50
Outstanding at end of year	-	$ -	70,000	$ 6.77
2012				
Granted	-	-	20,000	15.42
Exercised	-	-	14,000	7.75
Forfeited	-	-	-	-
Outstanding at end of year	-	$ -	76,000	$ 8.87

At December 31, 2012, there were 76,000 options outstanding that had a weighted average remaining life of 4.78 years. All of the options are exercisable, and all of the options are in-the-money. The per share exercise prices range from $6.50 to $16.00. The aggregate intrinsic value of options exercised during 2012 was approximately $180,000.

Note 13 - Stock Options (Continued)

The following table summarizes information about stock options outstanding at December 31, 2012:

	Options Outstanding and Exercisable		
	Shares Under Option	Weighted Average Remaining Life	Exercise Price
Exercise Price			
$6.50	55,000	3.20	$ 6.50
$8.00	1,000	3.34	8.00
$14.55	8,000	9.19	14.55
$16.00	12,000	9.20	16.00
	76,000	4.78	8.87

The aggregate intrinsic values of options outstanding, all of which were exercisable, was approximately $618,000 at December 31, 2012.

Share based compensation of $103,560 was recognized on the grant of 20,000 options during 2012. At the share grant date, the fair value of options granted in 2012 amounted to $103,560 ($5.37/share for 12,000 shares and $4.89/share for 8,000 shares). The fair value of the stock option grant made during 2012 was estimated on the grant date using the Black-Scholes option pricing model under the following weighted average assumptions:

Expected dividend yield	1.3%
Expected volatility	61.0%
Risk-free interest rate	3.22%
Expected holding period	2 years

Note 14 - Discontinued Operations

As disclosed in Note 1, Harvel's financial position and operating results are being accounted for as discontinued operations. Accordingly, Harvel's operating results for the year ended December 31, 2011 was reclassified as discontinued operations in the consolidated statement of operations and its assets and liabilities are reported as held for sale in the Company's December 31, 2011 consolidated balance sheet.

The following is a summary of Harvel's operating results for 2011 included in discontinued operations:

	2011
Net sales	$ 67,640,902
Gross profit	9,283,477
Income before income taxes	3,489,801
Net income	2,209,110

Note 14 - Discontinued Operations (Continued)

The following is a summary of Harvel's assets and liabilities held for sale as of December 31, 2011:

Assets:	
Cash	$ 543,778
Accounts receivable	5,468,792
Inventories	9,421,767
Other current assets	604,889
Total current assets	16,039,226
Property and equipment - Net	8,373,088
Other assets	176,349
Total assets	$ 24,588,663
Liabilities:	
Accounts payable	$ 4,209,932
Accrued and other current liabilities	587,239
Total current liabilities	4,797,171
Pension obligation	2,071,684
Other liabilities	1,753,098
Total liabilities	$ 8,621,953

Note 15 - Subsequent Event

During 2013, the Company entered into negotiations with an independent organization (the Acquirer) to transfer the Company’s obligations to manage and clean-up a significant number of the Company’s environmental sites described in Note 10. The sites contemplated to be transferred represent all but $2.5 million of the recorded environmental reserve at December 31, 2012. Recently, the Company and the Acquirer entered into a non-binding letter of intent (LOI) to effect the environmental liability transfer. Under the terms outlined in the LOI, the Company would pay approximately $13.7 million, including a one-time insurance premium payment to cover third party liability, and transfer title to four parcels of Company owned real estate with a December 31, 2012 carrying value of $800,000. The Acquirer would be required to deposit approximately $11 million of the Company’s payment into an escrow account from which future environmental clean-up and other defined costs would be funded. The Acquirer would also be required to deposit net proceeds from real property sales into the escrow account. The unspent escrowed funds would not be released until certain defined environmental clean-up milestones are achieved on three specific sites with the highest estimated environmental clean-up costs. In addition, the Acquirer would guarantee their performance under the environmental liability transfer contract and would also pledge other of their assets as collateral for that guarantee. Under the federal and state environmental laws the Company would be contingently liable for environmental obligations if the Acquirer failed to perform on their assumed clean-up obligations. The Company believes this contingency would be remote.

The Company believes that the transaction will close during the second quarter of 2013 and will be funded with available cash and bank debt. The current portion of the Company’s December 31, 2012 environmental reserve did not consider this environmental liability transfer transaction, since the transaction was negotiated beginning after 2012. However, the Company’s total environmental liability reserve of $17 million at December 31, 2012 is adequate, including the impact of the pending environmental liability transfer transaction described above. The Company’s 2013 payment to the Acquirer would be charged against the December 2012 environmental reserve and is not expected to impact the environmental provision expense in 2013.

2012 was a transformative year for Detrex Corporation. The Company completed the sale of its Harvel Plastics subsidiary in January 2012 that resulted in an after-tax gain on sale of approximately $14.5 million, net of the required accounting for Detrex's share of Harvel's after tax pension expense of $1.7 million that is required to be recognized under generally accepted accounting principles. The Harvel sale represented a significant step in building Detrex's capital base and has enabled Detrex to pursue strategies to create value for its shareholders including funding pension obligations, aggressively seeking solutions to long-term environmental legacy liabilities, and paying substantive dividends to shareholders. As a result of the sale, Harvel's 2011 financial position and operating results for 2012 and 2011, including the Harvel sale after-tax gain are classified as discontinued operations in the Company's 2012 consolidated financial statements. The accompanying Management's Discussion and Analysis will include the actual 2012 operating results for Detrex Corporation and its remaining subsidiary, The Elco Corporation.

During 2012, the Company reported a pre-tax loss of $9.96 million from continuing operations, compared to a pre-tax income of $3.9 million in 2011. The pre-tax operating results were net of a pre-tax environmental charge of $15.7 million in 2012 and $2.7 million in 2011. Total Company 2012 revenues of $43.4 million represents a decrease of $5.5 million (11 percent) compared to 2011. Consolidated selling, general and administrative (SGA) expenses increased by approximately $633,000 or 8 percent, compared to 2011.

The Company's 2012 environmental provision of $15.7 million, which increased the environmental reserve to $17 million, provides for future expenditures of consulting fees, delineation costs and remedial activities for several contaminated sites which have varying levels of contamination. The 2012 environmental provision is $12.7 million higher than the 2012 environmental spending of $3.1 million.

The Detrex Corporation share of total 2012 net income of $7.7 million, includes $14.5 million net income from discontinued operations resulting from the sale of Harvel Plastics. The 2012 net loss from continuing operations of $7 million compared to the $2.4 million profit from continuing operations in 2011 resulted from the significant environmental charge recorded after undertaking a significant study during 2012.

The lower consolidated 2012 revenues of $43.4 million were due to the absence of tolling revenues in 2012, lower sales to a major customer, and overall sluggish industrial lubricant activity. Gross margins, expressed as a percentage of sales, were 34.8 percent in 2012 compared to 32.8 percent in 2011. The higher 2012 margin percentage was realized because of significantly lower tolling sales in 2012 (which generated much lower margin percentage). Elco's 2012 SGA expenses increased by approximately $533,000 compared to 2011 as a result of Elco's planned spending to support growth. Elco's overall operating earnings decreased to $8.7 million in 2012 from $10.2 million in 2011.

Detrex's consolidated results from continuing operations (after eliminating the discontinued Harvel operations) for 2012 reflected Elco lower earnings compared to 2011. Consolidated SGA expenses of $8.5 million for 2012 is 8 percent higher than the $7.9 million SGA expense for 2011. The increase reflects higher investment for Elco and significant consulting fees paid to evaluate and better quantify the Company's environmental exposure. The significant increase in the 2012 environmental provision of $15.7 million compared to the 2011 provision of $2.7 million reflects the findings from the in-depth analysis conducted by Detrex personnel and outside expert consultants.

The 2012 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 2013.

Interest expense for the Company's revolving credit and the term loan facilities for 2012 was substantially lower compared with 2011 interest expense of $493,000 due to the retirement of outstanding bank debt in early 2012.

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 2012 income tax expense from continuing operations decreased by $4.5 million compared to 2011, due to the significant environmental charge that reduced pre-tax income and an income tax expense adjustment recorded in 2012 to settle tax estimates made in previous years. All of Detrex Corporation's net operating loss and minimum tax credit carryforwards have been utilized in 2012 as a result of the gain from discontinued operations. However, the Company has net deferred tax assets of $6 million at December 31, 2012.

Comparative Operating Data

Comparative data includes continuing operations only.

	($ in table in thousands)			
	2012		2011	
The Elco Corporation	$	%	$	%
Net sales	43,406	100.0	48,918	100.0
Gross margin	15,124	34.8	16,041	32.8
Selling, general and administrative expenses	5,361	12 4	4,828	9.9
Depreciation and amortization	1,077	2.5	1,029	2.1
Elco pre-tax income	8,686	20.0	10,188	20.8
Detrex Corporation				
Selling, general and administrative expenses	3,141	7.2	3,041	6.2
Depreciation and amortization	4	-	3	-
Environmental provision	15,725	36 .2	2,711	5.5
Total consolidated pre-tax income (loss)	(9,956)	(22.9)	3,948	8.1

The Harvel sale resulted in a significant improvement in Detrex's financial liquidity that enabled the Company to address a number of strategic initiatives, including payments on pension obligations and management of its legacy environmental obligations. Detrex contributed $6.7 million to its pension plans which resulted in a significantly improved funding level for both of its pension plans. The Company also engaged in an evaluation of its environmental sites and obligations. With the assistance of nationally known environmental experts, the Company completed an evaluation of the likely costs of managing its numerous environmental sites and developed a strategy of which sites could be cost effectively maintained by Detrex and which sites could be transferred to an independent party or insured on a cost effective basis. In early 2013, the Company began discussions with third parties about the possibility of transferring a significant number of its environmental sites. Those discussions led to Detrex negotiating with one of the parties (the Acquirer) to assume the environmental liability on a large number of sites. The negotiations have led to the completion of a definitive non-binding letter of intent for Detrex to transfer its environmental liabilities on 19 sites to the Acquirer. Detrex's obligation will include payments totaling approximately $13.7 million and the transfer of Detrex owned real estate with a carrying value on Detrex's December 31, 2012 financial statements of $800,000. The environmental transfer transaction will create a significant income tax deduction which will result in realized cash income tax refunds estimated to be more than $6 million. Had Detrex been able to perform a similar environmental evaluation and record the environmental reserve liability in its previous year's financial statements, the Company's consolidated 2012 operating results from continuing operations would have been impacted as follows in the pro forma column below:

	in ($000s)	
	Proforma	**Actual**
Net sales	$ 43,406	$ 43,406
Cost of sales (exclusive of depreciation)	28,282	28,282
Selling, general, and administrative expense	8,503	8,503
Provision for depreciation and amortization	1,081	1,081
Provision for corporate environmental reserve	-	15,725
Other income	229	229
Net income (loss) before income taxes	5,769	(9,956)
Income tax (recovery)	2,559	(2,945)
Net income (loss)	$ 3,210	$ (7,011)
Basic earnings per share	$ 1.92	$ (4.18)
Fully diluted earnings per share	$ 1.87	$ (4.08)

The impact of the expected large environmental liability transfer transaction and environmental reserve liability recorded on Detrex's 2012 financial statements will likely result in no environmental expense being recorded by Detrex in the foreseeable future. However, Detrex expects that spending will continue, not only to fund the large environmental liability transfer transaction described above, but also to pay for on-going investigation and remediation of the seven sites (all but one have been cleaned-up and are in the monitoring stage) that are expected to be retained by Detrex.

Liquidity, Financial Condition, and Capital Resources

The Harvel sale enabled Detrex to realize cash proceeds of approximately $37.7 million. In connection with the Harvel sale, the Company retired all ($15.3 million) outstanding indebtedness to its bank, JPMorgan Chase and also executed a new credit agreement with JPMorgan Chase which provides up to a $5 million revolving credit line and a $5 million term loan credit line. Other significant 2012 expenditures included capital spending of $1.8 million, pension contributions of $6.7 million, environmental spending of $3.1 million, shareholder dividends of $6.7 million, and income tax payments of $4.8 million.

Management believes that as a result of the Harvel sale, available credit facility and the profit outlook at the Elco business subsidiary, the Company's financial condition will have substantial financial liquidity to meet all of its financial obligations and to fund on-going operations.

Outlook

There is continued optimism regarding the economic outlook in the businesses that Elco serves. Elco posted another solid financial performance in 2012 which is expected to continue. Although Elco's 2012 sales were $5.5 million lower than 2011 due to the absence of tolling revenues, lower sales to a major customer and an overall sluggish industrial lubricant market, margins remained strong and 2012 pre-tax income totaled $8.7 million. Elco strategies to achieve higher future profits include expansion into the China market 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 has utilized the best available information to estimate its liability with respect to environmental issues. 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 2012, the company engaged nationally recognized environmental consultants to assess and measure Detrex's environmental liability exposure on a large number of sites currently or previously owned, leased, or utilized by Detrex companies. The consultants, working with significant current and historical data were asked to provide a financial determination of the costs required to clean-up the sites and develop a comprehensive estimate of what a third party would require to assume Detrex's obligation for managing and cleaning-up the various sites, thereby relieving Detrex of its ongoing clean-up obligation. As a result of the assessment (which was concluded in late 2012), the Company recorded pre-tax environmental charges of $15.7 million in 2012. At December 31, 2012, the Company has accrued $17 million in environmental reserves which, based on independent expert consultants, is adequate to cover known environmental exposures. The Company is committed to aggressively settling environmental matters at various 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. The Company continues to investigate opportunities to mitigate its environmental obligations, including transfers of large obligations to third parties. However, it is not possible to determine whether actual losses will occur or to definitely estimate the amount or range of any potential additional loss. Spending requirements for 2013 are projected to approximate $3.6 million if a liability transfer transaction is not consummated. 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. But the Company believes that the recorded liability is a better estimate of long-term environmental remediation for contaminated sites and significant accounting environmental charges are not likely to occur in the foreseeable future. For further discussion of these matters, see Note 10 to the 2012 consolidated financial statements.

The Company's pension plans have been underfunded for many years. Pension plans cover current and former employees of Detrex Corporation and Elco. The Company recognized pension expense from continuing operations of $232,000 in 2012, $205,000 in 2011 and $1,476,000 in 2010. As a result of the Harvel sale, the Harvel Plastics Pension Plan obligation of $2.1 million was assumed by the buyer (beginning in 2012). On a continuing operations basis, the underfunded status of the plans increased from $7.3 million at December 31, 2010 to $9 million at December 31, 2011 but decreased to $4 million at December 31, 2012 due to significant contributions (totaling $6.7 million) made to the pension plans in 2012. Due in large part to the plan freezes prior to 2011, the significant contributions made to the plans in 2012, and the elimination of the Harvel's pension plan obligation in connection with the 2012 sale, the annual pension expense from continuing operations is not expected to exceed $.5 million in future years. Funding of the pension obligation for continuing operations was $6.7 million (of which $5 million was made at the Company's discretion) in 2012 compared to $1.6 million in 2011. The Company expects to make 2013 pension contributions of $1.6 million. 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 9 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, closing unprofitable non-core businesses, and investing in stable and consistently profitable businesses such as Elco. The Harvel sale represents the most significant execution of the opportunistic divestiture strategy. The sale resulted in after-tax cash proceeds to Detrex of nearly $32 million (net of escrowed sale proceeds) that enabled Detrex to retire all of its bank debt (totaling $15.3 million) and use significant cash reserves to fund pension and environmental legacy obligations, pay significant dividends to shareholders and continue funding Elco's capital requirements. In addition, Detrex executed a new bank credit agreement that provides a borrowing capacity of $10 million. The Company must continue to operate profitably to fund its current operating needs, fund capital expenditures, pension, environmental and other legacy 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 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 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 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. Further, 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 is investigating the possibility of transferring the environmental risk to third parties; the transfer cost could be greater than management's existing environmental reserve estimates. 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 had a total of $17 million accrued for environmental obligations at December 31, 2012 and $4.1 million accrued for these obligations at December 31, 2011. These are the Company's best estimates of the future costs with respect to known environmental matters. During 2012, the Company engaged nationally recognized environmental consultants to assess and measure the Company's environmental liability exposure. This in-depth study on a number of contaminated sites produced significant data for a more comprehensive evaluation of the Company's environmental obligation. Based on that knowledge and desire to aggressively gain closure on certain sites, management recorded significant additional environmental reserves during 2012. Management believes that the 2012 accrued environmental reserve of $17 million represents a meaningful estimate and will likely reduce the need for large additional environmental provisions in the forseeable 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 10 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 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, 2012, and mortality rates. These assumptions are updated annually and are disclosed in Note 9 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 2012 the underfunded pension obligation from continuing operations decreased by $5 million. During 2012, the Company reduced the discount rate assumption used to measure the future benefit obligation from 5.25 percent to 4.25 percent. The discount rate reduction increased the benefit obligation by $3.2 million. This was offset by the pension plans' net investment return exceeding the actuarial assumption, expected long-term asset return, and a $5 million discretionary pension contribution, in addition to the planned $1.6 million contribution.

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 2012 and 2011. Actual market investment returns (losses) (net of plan expenses) for plans sponsored from continuing operations were approximately 10 percent in 2012 and (.8) percent in 2011. Assuming a constant discount rate, if actual rates of return on the pension investment portfolio exceed the 2012 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 and 5.25 percent at December 31, 2012 and 2011, 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 long-term interest rates are trending lower which may result in continued reductions of the assumed discount rate used to value the Company's future pension obligations.

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

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

Deferred Tax Assets

The Company currently has significant net deferred tax assets resulting from deductible temporary differences, which are available to reduce taxable income in future periods. In accordance with current accounting principles, the Company regularly reviews the realizability of these deferred tax assets. The amount of the deferred tax assets determined to be realizable was based on the tax effect of forecasted future taxable earnings and the possible employment of tax-planning strategies. The Company will continue to review its remaining deferred tax asset balances, and if it is determined that it is more likely than not that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged against income in the period such determination was made.

SUPPLEMENTARY INFORMATION (Unaudited)
Selected Quarterly Data

	2012 Quarters				2011 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Thousands of dollars, except per share amounts)							
Net sales – Continuing operations	9,904	10,102	11,129	12,271	$10,606	$14,117	$12,674	$11,521
Gross margin on sales – Continuing operations	3,606	3,469	3,872	4,176	3.583	4,485	4,106	3,867
Pre-tax earnings (loss) – Continuing operations (1)	(12,755)	718	890	1,191	230	1,457	1,175	1,086
Net income – Continuing operations	(8,770)	448	585	726	307	828	661	627
Net income – Discontinued operations	(1,740)	(85)	(401)	16,946	38	686	722	763
Net income attributable to Detrex	(10,510)	363	183	17,672	336	1,405	1,267	1,269
Basic earnings per common share attributable to Detrex shareholders:								
From continuing operations	(5.23)	0.27	0.35	0.43	0.18	0.45	0.42	0.40
From discontinued operations	(1.04)	(0.05)	(0.24)	10.11	0.02	0.30	0.38	0.40
Total basic earnings per share	(6.27)	0.22	0.11	10.54	0.20	0.75	0.80	0.80

(1) Includes 2012 environmental charges of $600 for each of the first three quarters and $13,925 for the fourth quarter and 2011 environmental charge of $500 in each of the first three quarters and $1,211 in the fourth quarter.

BUSINESS

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation and its Elco subsidiary (the "Company") manufacture chemical products predominantly for use in the industrial manufacturing. The following describes Detrex's subsidiary's product offerings during 2012:

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 $43,406 in 2012 and $48,918 in 2011.

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 material 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 30 percent of the Company's 2012 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 who 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 significant professional fees and remediation expenses in connection with its environmental compliance efforts. The Company maintains environmental reserves which at December 31, 2012 totaled $17 million, of which $3.6 million is estimated to be spent in 2013 if a liability transfer transaction is not consummated. A more detailed discussion of environmental matters is included in Note 10 to the 2012 consolidated financial statements.

The Company employed 65 persons as of December 31, 2012.

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 2012, 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, 2012 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.

Other properties owned by Detrex Corporation but not actively used by Detrex Corporation at or after December 31, 2012 are as follows:

1) The Company owns 40 acres of unimproved land in Romulus, Michigan that was formerly utilized by a business that was sold in 2000. The property is classified in land in the 2012 and 2011 consolidated balance sheets.

2) The Company owns a warehouse and sales office facility located in Detroit, Michigan. The building area is approximately 20,000 square feet and is located on approximately one-half acre of land.

3) The Company owns a warehouse and sales office facility located in Charlotte, North Carolina. The building area is approximately 11,000 square feet and is located on one acre of land.

4) The Company owns a warehouse and sales office facility located in Chicago, Illinois. The building area is approximately 10,000 square feet and is located on one acre of land.

5) The Company leases space in an industrial office park in Cinnaminson, New Jersey.

The other properties owned by Detrex relate to businesses that the Company has sold. The properties numbered 2 to 5 were leased to the purchaser of the Parts Cleaning Technologies ("PCT") business segment. The leases on properties 2 and 4 were terminated in December 2012.

FORWARD-LOOKING STATEMENTS

This document, including the letter to shareholders and the 2012 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)

	2012	2011	2010	2009	2008
	(Dollars in thousands, except per share amounts)				
Net sales from continuting operations	$43,406	$48,918	$35,289	$24,150	$25,497
Net income (loss) from continuting operations	(7,011)	2,423	1,529	(1,349)	(602)
Net income (loss)	7,453	4,632	2,222	(2,923)	1,339
Net income (loss) attributable to Detrex	7,708	4,277	2,088	(2,963)	888
Basic earnings (loss) per common share:					
From continuting operations	(4.18)	1.45	0.97	(0.85)	(0.38)
From discontinued operations	8.78	1.10	0.35	(1.02)	0.94
Net earnings (loss) per share attributable to Detrex Corporation	4.60	2.55	1.32	(1.87)	0.56
Total assets	37,291	54,130	50,318	47,741	52,144
Net working capital	12,206	12,057	9,562	9,745	12,787
Capital expenditures	1,758	2,304	1,392	560	1,201
Total bank debt	-	15,282	16,674	16,056	14,943
Pension plan contributions	6,669	1,579	1,381	706	1,471
Environmental expenditures	2,836	2,216	2,071	4,113	1,409
Stockholder's Equity	11,133	9,303	7,165	4,668	4,417
Stockholder's equity per common share	6.64	5.55	4.52	2.95	2.79
Number of employees	65	69	62	59	63
Percentages to net sales:					
Gross margin	34.8%	32.8%	34.96%	28.84%	27.82%
Net income (loss) from continuing operations	(16.15%)	4.95%	4.33%	(5.59%)	(2.36%)
Net income (loss) from continuting operations as a percent of:					
Average total assets	(15.34%)	4.60%	3.12%	(2.70%)	(1.18%)
January 1st Detrex stockholders' equity	(75.37%)	33.80%	32.76%	(30.54%)	(6.92%)
Current ratio	2.4	1.7	1.6	1.8	2.2

DIRECTORS

WILLIAM C. KING
Chairman of the Board

THOMAS E. MARK
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
Former Managing Partner, Stonebridge Business Partners, LLC,
Financial and Business Advisors, Troy, Michigan

AUDIT COMMITTEE

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

CORPORATE OFFICERS

T. E. MARK
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 2012 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

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