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**DETREX  
CORPORATION**

**2010 ANNUAL REPORT**

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## HIGHLIGHTS(1)

	2010	2009
Net sales.....	\$ 93,664,728	\$ 74,543,604
Pre-tax income (loss) before environmental provision (2).....	4,505,946	(552,114)
Environmental provision (2).....	755,000	3,900,000
Pre-tax income (loss) (2).....	3,750,946	(4,452,114)
Net income (loss) (2).....	2,221,826	(2,923,023)
Net income (loss) per common share, fully diluted (2).....	1.32	(1.87)
Net income (loss) attributable to Detrex Corporation (3).....	2,088,320	(2,963,752)
Net income (loss) attributable to Detrex per common share, fully diluted (3).....	1.31	(1.85)
Detrex stockholders' equity per common share.....	4.52	2.95
Additions to land, buildings, and equipment (including capital leases).....	2,857,144	1,227,323
Current ratio.....	1.6 to 1	1.8 to 1
Number of employees.....	203	195

(1) This information should be considered in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis.

(2) Includes previously reported operating results that were classified as discontinued operations in the 2009 consolidated statement of operations.

(3) Is after attribution of noncontrolling interest in earnings.

## DETRIX COMPANIES

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation and its subsidiaries (the "Company") manufacture products predominantly for use in the industrial manufacturing and commercial construction markets. Below are descriptions of each subsidiary's product offerings:

- **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 including pyrroles. 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](http://www.elcocorp.com) and [www.detrexchemicals.com](http://www.detrexchemicals.com)

- **Harvel Plastics, Inc.** — a leading producer of high-quality corrosion resistant PVC and CPVC thermoplastic extrusions. Products manufactured include industrial piping, duct systems, machining profiles and other custom extrusions. Harvel's products are well known for precise blend formulations, superior dimensional stability and high quality. Examples of product lines include: Harvel® PVC and CPVC industrial pressure pipe in sizes ranging from 1/8" through 24" diameters, Harvel® BlazeMaster® CPVC fire sprinkler pipe, Harvel® FlowGuard Gold® and HydroKing® CTS CPVC plumbing piping, Harvel LXT® ultrapure water piping, Harvel Clear™ PVC piping for use in food processing, sight glass and dual containment applications, Harvel FlameTech™ low flame and smoke containment piping, and Harvel EnviroKing™ UV for photobioreactors. Harvel's products are used in a wide variety of applications in various markets including: chemical and industrial processing, high purity, food and beverage, fire protection, micro-electronics, water and waste water, commercial hot and cold water distribution systems, power generation and aquaculture to name a few. With manufacturing or warehouse facilities in Pennsylvania, California, and Texas, Harvel supplies its products through wholesalers across North America and globally through agents and distributors. Website: [www.harvel.com](http://www.harvel.com)

## TO OUR SHAREHOLDERS:

Detrex Corporation achieved solid operating results in 2010, as we began to recover from the 2008-2009 recession and continued to build on recent market successes. The Elco Corporation (Elco) achieved record results for both sales and earnings and Harvel Plastics, In c. (Harvel) achieved sales growth and improved profitability. Progress was made in managing legacy liabilities and the Corporation spent \$3.6 million on combined pension and environmental matters. 2011 is starting out to be a promising year in which we plan to increase shareholder value by continuing strong operating performance while further reducing legacy liabilities.

The combined sales of the two business units grew to \$93.7 million in 2010 which represents a 25.7 percent increase over the 2009 level of \$74.5 million, as both companies achieved double digit growth. Pre-tax income was \$3,750,946 compared to a loss in the prior year. Significant charges for legacy items contributed to the loss in 2009. These included a \$3,900,000 environmental charge and a charge of \$1,618,818 to write down the value of a property held for sale. Those charges were partially offset by a gain of \$1,760,351 recognized due to a postretirement benefit plan termination. The 2010 results include an environmental charge of \$755,000. The 2010 net income was \$2,088,320 or \$1.31 per fully diluted share, compared to a net loss of \$2,963,752 or \$1.85 per fully diluted share in 2009. The 2010 net income includes income tax expense of \$1,329,000 that the Company is not required to pay due to utilization of significant tax loss carryforwards and changes in timing differences. Please note that in 2010 we have classified all Company financial activities in continuing operations which we believe will improve the readability and transparency of the Company-wide financial information. The 2009 financial statements were reclassified to be comparable to the 2010 presentation.

Elco sales increased by 46 percent to \$35.3 million in 2010, compared to \$24.2 million in 2009. The growth in sales achieved in 2010 was due to generally improved market conditions, geographic expansion, market share gains and a temporary tolling arrangement. Customers continued to be very receptive to our established, as well as recently introduced specialty products and we expect this to continue in 2011. Significant margin and earnings improvement resulted from the increase in sales volume since manufacturing expenses and operating expenses increased by a relatively modest 18 percent on a cost base that had been cut back in 2009. The result was record pre-tax earnings of \$6.9 million for the year, compared to \$3.1 million in 2009.

Harvel's sales were \$58.4 million in 2010 which represents 16 percent growth over the 2009 level of \$50.4 million. This growth was achieved in spite of a decline in the North American pipe markets which has been estimated by industry sources to be 15-20 percent. As we progressed through the year, sales increased as the result of strong relationships with key customers and demand for our specialty products. The only significant decline was in Blazemaster fire sprinkler pipe which is heavily dependent on residential construction. Harvel continued to develop strategic relationships with key industry partners and continued with the introduction and commercialization of specialty products. The increase in sales helped to propel Harvel's 2010 pre-tax earnings to \$1.5 million from \$0.3 million in 2009. A number of costs and expenses grew at a slower rate than the increase in sales; in addition, the cost base had been reduced in 2009.

Management succession plans were implemented at both Elco and Harvel in 2010 and early 2011 as the result of key executive retirements and planned retirements. We are pleased that the key positions have been filled with internal talent.

In 2010, we spent \$2.1 million on environmental matters, compared to \$4.1 million spent in 2009. A major landfill capping project was completed during the year and progress was made at a number of sites. The uncertainties inherent in environmental matters challenged the Company again in 2010 as new developments and changed conditions resulted in a \$755,000 charge to increase reserve amounts for several projects. At year end, the reserve was \$3,616,000. We anticipate spending approximately \$1.8 million on these matters in 2011, \$1 million in 2012, and lesser amounts in the years after that. The Company regularly conducts reviews of its environmental matters and has made provisions in its financial statements for these matters. We believe that the December 31, 2010 environmental reserve of \$3.6 million is a adequate given known information. It is possible that future costs could exceed the current environmental provisions; however, the amounts are not reasonably determinable based on current conditions. Going forward, the Company may need to replenish the environmental reserve with amounts at least similar to amounts spent until the resolution of the individual environmental sites is more clearly determined.

The underfunded status of the Company's pension plans went from \$10.6 million to \$8.7 million at the end of the year due to gains in the investment portfolio and Company contributions to the plans partially offset by benefit payments and a reduction in the discount rate used for calculating the liability. All pension plans have been frozen and annual funding was \$1.6 million in 2010 and is expected to approximate \$1.7 million in 2011.

Our bank debt increased by \$0.6 million to \$16.7 million in 2010. The incremental borrowing was used in combination with internally generated funds from our business units to finance our overall operations, pension funding of \$1.6 million, environmental expenditures of \$2.1 million and capital expenditures of approximately \$2.9 million. In December 2010, the Company negotiated an amendment to its loan agreement with JP Morgan Chase Bank, NA. The amended agreement has a term that expires in June 2012 and provides a facility that is adequate for our current requirements.

In 2010 we began our recovery from the 2009 recession with solid operating performance from Harvel and outstanding sales and earnings from Elco. We achieved a reduction in our legacy liabilities, while continuing to invest in the future of the two businesses. We view the coming year with cautious optimism as both businesses have continued to generate strong operating results in the early part of the year.

*Thomas E. Mark*  
*President and Chief Executive Officer*

*William C. King*  
*Chairman*

## Independent Auditor's Report

To the Board of Directors and Stockholders of Detrex Corporation:

We have audited the accompanying consolidated balance sheets of Detrex Corporation and its subsidiaries (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Detrex Corporation and its subsidiaries at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its reporting for discontinued operations in 2010.

*Plante & Moran, PLLC*

March 10, 2011

**DETREX CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Net Sales</b> .....	\$ 93,664,728	\$ 74,543,604
Cost of sales (exclusive of depreciation) .....	73,522,897	60,241,017
Selling, general, and administrative expenses .....	12,070,742	11,680,060
Provision for depreciation and amortization .....	2,773,666	2,851,883
Provision for corporate environmental reserves .....	755,000	3,900,000
Provision for write-down of property held for sale .....	--	1,618,818
Gain due to termination of postretirement benefit plan .....	--	(1,760,351)
Other expense — net .....	10,935	18,519
Interest expense .....	730,565	466,067
Net loss (gain) from asset disposals .....	49,977	(20,295)
<b>Income (Loss) Before Income Taxes</b> .....	3,750,946	(4,452,114)
Provision (Credit) for income taxes .....	1,529,120	(1,529,091)
<b>Net Income (Loss)</b> .....	\$ 2,221,826	\$ (2,923,023)
<b>Net (Income) attributable to the noncontrolling interest</b> .....	(133,506)	(40,729)
<b>Net Income (Loss) attributable to Detrex Corporation</b> .....	<b>\$ 2,088,320</b>	<b>\$ (2,963,752)</b>
<b>Basic Earnings (Loss) Per Common Share:</b>	\$ 1.32	\$ (1.87)
<b>Fully Diluted Earnings (Loss) Per Common Share:</b>	\$ 1.31	\$ (1.85)
Number of Shares Outstanding, basic .....	1,583,414	1,583,414
Number of Shares Outstanding, fully diluted .....	1,595,133	1,605,232

See Notes to Consolidated Financial Statements.

**DETREX CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents .....	\$ 1,167,058	\$ 452,974
Accounts receivable (net of allowance for uncollectible accounts of \$97,000 in 2010 and \$70,000 in 2009) .....	9,161,443	7,718,668
Inventories .....	13,914,286	12,241,593
Prepaid expenses and other .....	475,284	642,113
Deferred income taxes .....	1,160,000	1,194,000
<b>Total Current Assets</b> .....	<b>25,878,071</b>	<b>22,249,348</b>
<b>Land, Buildings and Equipment:</b>		
Land .....	758,602	758,602
Buildings and improvements .....	15,528,557	15,370,832
Machinery and equipment .....	47,805,192	45,903,338
Construction in progress .....	681,408	371,073
	64,773,759	62,403,845
Less allowance for depreciation and amortization .....	48,253,537	45,903,127
<b>Land, Buildings and Equipment — Net</b> .....	<b>16,520,222</b>	<b>16,500,718</b>
<b>Deferred Income Taxes</b> .....	6,282,756	7,807,272
<b>Other Assets</b> .....	757,785	684,305
	<b>\$ 49,438,834</b>	<b>\$ 47,241,643</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Revolving credit facility .....	\$ 4,304,899	\$ 2,961,761
Current portion of long-term debt .....	1,000,000	725,000
Current maturities of capital lease obligations .....	33,039	36,661
Accounts payable .....	6,471,605	4,743,805
Current portion of accrued postretirement benefits .....	--	163,000
Current portion of environmental reserve .....	1,750,000	2,100,000
Accrued compensation .....	1,175,209	473,322
Other accruals .....	1,581,413	1,300,137
<b>Total Current Liabilities</b> .....	<b>16,316,165</b>	<b>12,503,686</b>
<b>Long-Term Portion of Capital Lease Obligations</b> .....	79,083	112,123
<b>Long-Term Debt</b> .....	<b>11,368,750</b>	<b>12,368,750</b>
<b>Long-Term Accounts Payable</b> .....	250,000	--
<b>Accrued Postretirement Benefits</b> .....	--	33,336
<b>Environmental Reserve</b> .....	1,866,004	3,230,993
<b>Accrued Rent</b> .....	664,271	693,890
<b>Accrued Pension</b> .....	8,748,732	10,575,570
<b>Equity:</b>		
<b>Detrex Corporation Shareholders' Equity:</b>		
Common capital stock, \$2 par value, authorized 4,000,000 shares, outstanding 1,583,414 shares .....	3,166,828	3,166,828
Additional paid-in capital .....	536,530	536,530
Retained earnings .....	11,912,680	9,824,360
Accumulated other comprehensive loss .....	(8,451,344)	(8,859,892)
<b>Total Detrex Corporation Shareholders' Equity</b> .....	<b>7,164,694</b>	<b>4,667,826</b>
Noncontrolling interest .....	2,981,135	3,055,469
<b>Total Equity</b> .....	<b>10,145,829</b>	<b>7,723,295</b>
	<b>\$ 49,438,834</b>	<b>\$ 47,241,643</b>

See Notes to Consolidated Financial Statements.

**DETREX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Detrex Corporation Shareholders					Noncontrolling Interest			
	Capital Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Non- controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total Noncontrolling Interest	Total Equity
Balance at January 1, 2009.....	\$ 3,166,828	\$ 511,530	\$12,788,112	\$ (12,049,967)	\$ 4,416,503	\$3,404,494	\$ (427,711)	\$ 2,976,783	\$ 7,393,286
Comprehensive Income:									
2009 Net Income (Loss).....			(2,963,752)		(2,963,752)	40,729		40,729	(2,923,023)
Other Comprehensive Income:									
Defined Benefit Pension and Postretirement Plans, net of tax (See Notes 2 and 9).....				3,190,075	<u>3,190,075</u>		270,457	<u>270,457</u>	<u>3,460,532</u>
Total Comprehensive Income.....					226,323			311,186	537,509
Stock Based Compensation Expense .....		25,000			25,000				25,000
Dividends .....						(232,500)		(232,500)	(232,500)
Balance at December 31, 2009.....	3,166,828	536,530	9,824,360	(8,859,892)	4,667,826	3,212,723	(157,254)	3,055,469	7,723,295
Comprehensive Income:									
2010 Net Income .....			2,088,320		2,088,320	133,506		133,506	2,221,826
Other Comprehensive Income:									
Defined Benefit Pension Plans, net of tax (See Notes 2 and 9).....				408,548	<u>408,548</u>		2,160	<u>2,160</u>	<u>410,708</u>
Total Comprehensive Income.....					2,496,868			135,666	2,632,534
Dividends .....						(210,000)		(210,000)	(210,000)
Balance at December 31, 2010.....	<u>\$3,166,828</u>	<u>\$ 536,530</u>	<u>\$11,912,680</u>	<u>\$(8,451,344)</u>	<u>\$7,164,694</u>	<u>\$3,136,229</u>	<u>\$ (155,094)</u>	<u>\$ 2,981,135</u>	<u>\$ 10,145,829</u>

See Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31	
	2010	2009
<b>Cash Flows from Operating Activities:</b>		
Net income (loss).....	\$ 2,221,826	\$ (2,923,023)
Adjustments to reconcile net income (loss)		
Depreciation and amortization .....	2,773,666	2,851,883
Stock based compensation expense .....	--	25,000
Loss (gain) on disposal of assets.....	49,977	(20,295)
Uncollectible receivable provision (recovery) .....	27,000	(18,058)
Loss on writedown of property .....	--	1,618,818
Gain recognized on termination of postretirement benefit plan .....	--	(1,760,351)
Deferred income taxes .....	1,328,720	(1,542,772)
Environmental reserve provision .....	755,000	3,900,000
Pension expense.....	407,756	1,475,582
Changes to operating assets and liabilities that provided (used) cash:		
Accounts receivable .....	(1,369,077)	(946,180)
Inventories.....	(1,672,693)	1,983,146
Prepaid expenses and other .....	166,829	173,839
Other assets .....	(73,481)	28,569
Accounts payable .....	1,227,800	832,337
Environmental reserve.....	(1,820,688)	(4,113,139)
Accrued compensation .....	701,887	(191,528)
Accrued postretirement benefits.....	(1,808,642)	(1,131,581)
Other accruals.....	269,871	(222,648)
<b>Total adjustments</b> .....	<u>963,925</u>	<u>2,942,622</u>
<b>Net cash provided by operating activities</b> .....	<u>3,185,751</u>	<u>19,599</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures .....	(2,857,144)	(1,227,323)
Sale/disposal of fixed assets .....	14,000	447,829
<b>Net cash (used in) investing activities</b> .....	<u>(2,843,144)</u>	<u>(779,494)</u>
<b>Cash Flows from Financing Activities:</b>		
Repayments of long-term debt.....	(761,661)	(564,297)
Net borrowings under revolving credit facility.....	1,343,138	1,643,649
Dividends paid (noncontrolling interest) .....	(210,000)	(232,500)
<b>Net cash provided by financing activities</b> .....	<u>371,477</u>	<u>846,852</u>
Net increase in cash and cash equivalents.....	714,084	86,957
Cash and cash equivalents at beginning of year.....	452,974	366,017
Cash and cash equivalents at end of year .....	<u>\$ 1,167,058</u>	<u>\$ 452,974</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest .....	\$ 751,051	\$ 442,528
Income taxes .....	124,843	111,221
<b>Supplemental Noncash Investing and Financing Information:</b>		
Capital lease obligations incurred in connection with the acquisition of equipment.....	--	\$ 167,581

See Notes to Consolidated Financial Statements.

## DETREX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Nature of Operations 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”).

Both of the Company’s business units operate in highly competitive markets which are mainly national in scope, although approximately 17 percent of the Company’s net revenue in 2010 and 14 percent in 2009 was generated outside the United States. Generally, for all products there are numerous competitors, with no one company or 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, while Harvel sells primarily to distributors in the commercial and industrial construction markets. Sales to the top five customers for both Harvel and Elco totaled approximately 37 percent of the Company’s consolidated revenues in 2010 and 38 percent in 2009; the loss of one or more of these significant customers could materially adversely impact operating results. Accounts receivable from those customers were approximately \$2.7 million and \$2.6 million at December 31, 2010 and 2009, respectively. Harvel has one supplier which supplies a significant amount of its raw materials; these materials can be sourced from other suppliers.

#### 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. In 2009 and previous years, the Company reported certain operating results and cash flows as discontinued segments (see Note 8). However, all such financial activities have been classified as continuing operations and cash flows for 2010 as management believes this presentation better reflects the impact of these activities on the Company’s ongoing operations. As a result of this change, expenses totaling \$2,396,908 for 2009 previously reported as losses from discontinued operations have been included in the income (loss) before income taxes and a related income tax credit of \$826,000 has been included in the 2009 provision (credit) for income taxes.

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. In June 2009, the FASB issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements for the years ended December 31, 2010 and 2009. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (“Codification” or “ASC”). The FASB finalized the Codification effective for periods ending on or after September 15, 2009. Prior FASB standards like FASB Statement No. 87, *Accounting for Pensions*, are no longer being issued by the FASB. The Codification does not change how the Company accounts for its pension or the nature of related disclosures made. However, when referring to guidance issued by the FASB, the Company refers to topics in the ASC rather than Statement No. 87 or 158, etc. The adoption of FASB ASC 105 did not impact the Company’s financial position or results of operations. For further discussion of the Codification, see “FASB Codification Discussion” in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD & A”) elsewhere in this report.

In 2009, the Company adopted the provisions of FASB ASC 810-10-45, *Consolidation (Other Presentation Matters)*, which requires that noncontrolling (minority) interest be reported as a separate component of equity in the balance sheet and the net income attributable to noncontrolling interest be reported as a separate component in arriving at net income and comprehensive income. Previously, the minority interest was reported outside of equity and the income attributed to the minority interest was reported as a deduction in arriving at net income. The noncontrolling interest relates to an interest in one of the subsidiaries.

## DETREX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

#### *Cash and Cash Equivalents*

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

#### *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 upon shipment of products.

#### *Land, Buildings, and Equipment*

Land, buildings, 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 are as follows:

Buildings and building improvements....	2.5-20%
Leasehold improvements.....	2.5-20%
Yard facilities .....	5-6%
Machinery and equipment.....	6-33%
Office furniture and fixtures.....	10-25%

#### *Research and Development*

Research and development costs are charged to operations as incurred, and approximated \$617,000 for 2010 and \$631,000 for 2009.

#### *Earnings (Loss) Per Common Share*

The calculation of basic earnings (loss) 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, 2010, 183,000 options were vested; 42,000 of the options were in-the-money; the potential dilution was 11,719 shares and resulted in less than a one cent per share dilution on earnings (loss) per share. At December 31, 2009, all outstanding options were vested; 25,000 of the options were in-the-money, the potential dilution was 21,818 shares and resulted in less than a two cent per share dilution on earnings (loss) per share.

#### *Other Comprehensive Income (Loss)*

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as amounts recognized related to defined benefit pension and postretirement benefit 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).

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Changes in the components of accumulated other comprehensive income (loss) for the years 2009 and 2010 are as follows:

	<u>Postretirement Plan Adjustment</u>	<u>Pension Plan Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated OCI Attributed to Noncontrolling Interest</u>
Balance at January 1, 2009 .....	\$ 344,994	\$ (12,394,961)	\$ (12,049,967)	\$ (427,711)
Change for 2009 (1)(2) .....	<u>(344,994)</u>	<u>3,535,069</u>	<u>3,190,075</u>	<u>270,457</u>
Balance at December 31, 2009 .....	--	(8,859,892)	(8,859,892)	(157,254)
Change for 2010 (1)(2) .....	<u>--</u>	<u>408,548</u>	<u>408,548</u>	<u>2,160</u>
Balance at December 31, 2010 .....	<u>\$ --</u>	<u>\$ (8,451,344)</u>	<u>\$ (8,451,344)</u>	<u>\$ (155,094)</u>

(1) Change in Accumulated Other Comprehensive Income (Loss) is net of tax of \$210,464 in 2010 and \$1,643,372 in 2009

(2) Change in Accumulated Other Comprehensive Income (Loss) attributed to noncontrolling interest is net of tax of \$1,113 in 2010 and \$139,326 in 2009

***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.

The Company has elected to classify interest and penalties related to income tax as income tax expense.

***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 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.

***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 March 10, 2011, which is the date the consolidated financial statements were available to be issued.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**3. Inventories**

Inventories at December 31 consist of the following:

	<b>2010</b>	<b>2009</b>
Raw materials.....	\$ 5,452,026	\$ 4,168,537
Finished goods .....	8,462,260	8,073,056
Total inventories .....	\$13,914,286	\$12,241,593

**4. Capital and Operating Leases**

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

	<b>2010</b>	<b>2009</b>
Machinery and equipment...	\$ 167,581	\$ 203,581
Accumulated amortization ..	(46,212)	(59,733)
Leased assets, net .....	\$ 121,369	\$ 143,848

Rent expense applicable to operating leases, primarily for facility and equipment rental, approximated \$1,115,000 for 2010 and \$1,136,000 for 2009.

Harvel has an operating lease in California for a production and warehouse facility. At December 31, 2010, the Company was not in compliance with certain covenants contained in its lease agreement with its landlord. The landlord has waived the non-compliance through 2010. If the Company is not in compliance with the covenants in 2011, it could be obligated to escrow up to two years of rent payments or the lease could be terminated.

Minimum annual lease commitments for leases in effect at December 31, 2010 are as follows:

	<b>Minimum Lease Commitments</b>	
	<b>Capital</b>	<b>Operating</b>
2011.....	\$ 39,131	\$1,149,272
2012.....	39,131	1,059,228
2013.....	39,131	801,495
2014.....	6,521	846,308
2015.....	--	846,308
2016 and thereafter.....	--	846,308
Total minimum lease payments.....	123,914	\$5,548,919
Less amount representing interest.....	11,792	
Present value of net minimum lease payments.....	112,122	
Less current portion.....	33,039	
Non-current portion.....	\$ 79,083	

**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. The lending arrangement expires in June 2012. The current arrangement provides a revolving credit facility of \$12 million to finance short-term financing needs and to fund several letters of credit issued by the lender. Outstanding letters of credit at December 31, 2010 approximated \$794,000 and expire at various dates through August 2011. The revolving and long-term debt facilities (which amounted to \$12,368,750 at December 31, 2010) charge interest at one-half percent under the bank's prime lending rate (actual borrowing rate of 2.75 percent at December 31, 2010). The Company is obligated to pay principal of \$250,000 quarterly on the long-term debt facility. During 2010, the Company and its lender negotiated several loan amendments which effectively increased the available revolving credit borrowing capacity and reduced the interest rate charged. The current arrangement contains certain covenants including a requirement to maintain defined levels of tangible net worth, minimum fixed interest charge and minimum leverage ratio.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company's lending arrangement at December 31, 2009 charged interest at LIBOR plus 3.50 percent or the bank's prime rate plus 1.00 percent. At December 31, 2009, the Company had \$10,000,000 of its total borrowings under a 30-day LIBOR pricing and \$6,055,511 under the prime based rate. The effective interest rate under the LIBOR option was 3.75% and under the prime rate option was 4.25%.

The obligations under the credit facility are collateralized by substantial all Company assets.

The weighted average interest rate for all borrowings for the year ended December 31, 2010 was 4.1 percent and 2.9 percent for the year ended December 31, 2009.

The future principal debt maturities on long-term debt are as follows:

<u>Obligation</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Detrex Term Loan .....	\$1,000,000	\$11,368,750	\$12,368,750

**6. Income Taxes**

Income taxes (credits) include the following components:

	<u>2010</u>	<u>2009</u>
Current:		
Federal.....	\$ 12,000	\$ --
State and local .....	188,400	13,681
Total current .....	<u>200,400</u>	<u>13,681</u>
Deferred:		
Federal.....	1,244,720	(1,525,772)
State and local .....	84,000	(17,000)
Total deferred .....	<u>1,328,720</u>	<u>(1,542,772)</u>
Total Provision for Income Taxes .....	<u>\$1,529,120</u>	<u>\$ (1,529,091)</u>

Deferred tax assets (liabilities) at December 31, 2010 and 2009 relate to the following temporary differences and carryforwards:

	<u>2010</u>	<u>2009</u>
Net operating loss carryforward .....	\$ 3,629,035	\$ 3,650,045
Alternative minimum tax credit carryforward.....	613,103	602,031
Accruals for:		
Postretirement benefits .....	--	69,346
Environmental .....	1,418,206	1,882,906
Self-insurance reserve .....	110,835	163,024
Pension benefits.....	2,924,874	3,496,734
Inventory related .....	332,127	334,149
Property related impairment .....	754,398	754,398
Other.....	438,927	415,822
Total deferred tax assets .....	<u>10,221,505</u>	<u>11,368,455</u>
Depreciation .....	(2,702,241)	(2,302,345)
Other.....	(76,508)	(64,838)
Total deferred tax liabilities .....	<u>(2,778,749)</u>	<u>(2,367,183)</u>
Net deferred tax assets.....	<u>\$ 7,442,756</u>	<u>\$ 9,001,272</u>

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

For tax purposes, the Company has net operating loss carryforwards of approximately \$10.7 million which generate deferred tax benefits of \$3.6 million that expire between 2020 and 2029. The Company believes that it is more likely than not that future profitability levels or the possible employment of tax-planning strategies will be sufficient to realize all of its deferred tax assets; this assessment will be reviewed each period, and if it is determined that the Company may not ultimately realize all of its deferred tax assets, the Company will record a valuation allowance in that period.

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

	<b>2010</b>	<b>2009</b>
Expected tax provision .....	\$ 1,275,321	\$(1,513,719)
State and local income taxes, net of federal tax benefit.....	179,784	(13,242)
Nondeductible expenses and adjustment to prior year estimate – Net .....	74,015	(2,130)
Actual income tax provision.....	<u>\$ 1,529,120</u>	<u>\$(1,529,091)</u>

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 2007.

**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, 2010 and 2009 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 an investment account, which consists of exchange-traded mutual funds totaling approximately \$232,000 at December 31, 2010 and \$175,000 at December 31, 2009, classified as other assets on the consolidated balance sheet. The Company had no financial assets valued using Level 2 or Level 3 inputs during 2010 or 2009.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

The Company has been offering a parcel of excess property in Romulus, Michigan for sale since 2001. This property had been carried at a value of \$2,218,818 at December 31, 2008. The market for vacant land in the Detroit metropolitan area has been depressed for several years, and deteriorated even further in 2009 with the impact of the turmoil in the automotive industry and the credit crisis in the local economy. An appraisal performed in 2009 by an outside firm determined that the current fair value of the property was approximately \$600,000. Accordingly, the Company recognized a pre-tax charge of \$1,618,818 to reduce the carrying value of the property to the appraised value (using Level 2 inputs). Additionally, the property was reclassified from property held for sale to land, as it is not anticipated that it will be sold by 2011.

**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. In March 2009, the Company sold a former PCT property located in Arlington, Texas for \$485,000; this property had a book value of \$400,000. As discussed in Note 2, the 2010 activity was accounted for as part of continuing operations. The 2009 financial presentation was restated to conform with the 2010 presentation. Accordingly, the 2009 pre-tax gain on the sale of approximately \$45,000 after closing costs was recognized as part of other income or loss. At December 31, 2010 and 2009, the net carrying value of the other remaining PCT properties totaled approximately \$251,000.

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.

**9. Pension and Postretirement Costs**

*Pension*

The Company and its subsidiaries have several non-contributory, defined benefit pension plans which cover substantially all employees. Benefits for salaried employees prior to May 31, 2009 were based on years of service and the employee’s average monthly compensation using the highest five consecutive years preceding retirement. Benefits for hourly employees prior to May 31, 2009 were generally based on a specified payment per month for each year of service. On May 31, 2009, the defined benefit plans for all non union plans were frozen, meaning that no further benefits accrued after that date. As of December 31, 2009, the Company decided to freeze the union employees defined benefit plan. The actual plan freeze was completed in August 2010.

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 contributed \$1,612,000 to the plans in 2010 and \$881,000 to the plans in 2009.

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:

	<u>Target Range</u>	<u>2010</u>	<u>2009</u>
Equity securities .....	50-70%	56.8%	56.2%
Debt securities .....	30-40%	37.2%	36.1%
Cash equivalents.....	<u>0-10%</u>	<u>6.0%</u>	<u>7.7%</u>
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Equity securities primarily include investments in large cap, mid cap and smaller companies primarily located in the United States, although there are investments in international securities included as well. 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.

The fair value of plan assets at December 31, 2010 by category is as follows:

<u>Asset Category</u>	<u>Fair Value Measurements at December 31, 2010</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents .....	\$ 1,778,442		\$ 1,778,442	
Equity securities:				
Common stocks (a).....	3,673,258	3,673,258		
Mutual funds institutional equity (b) .....	4,394,004	4,394,004		
Mutual funds institutional international equity (c)	325,887	325,887		
Closed end mutual funds (d).....	235,929	235,929		
Exchange traded funds equity (e) .....	3,308,305	3,308,305		
Exchange traded funds international equity(f).....	2,551,022	2,551,022		
Fixed income securities:				
Exchange traded funds fixed income (g).....	853,514	853,514		
Mutual funds institutional fixed income (h) .....	9,523,918	9,523,918		
U.S. government and agencies.....	330,610		330,610	
Collateralized mortgage obligations .....	219,783		219,783	
Municipal securities.....	600,991		600,991	
Corporate bonds.....	261,863		261,863	
Annuity contracts and other fixed income	371,059		371,059	
Limited partnership interest (i) .....	<u>1,435,392</u>			<u>1,435,392</u>
Total.....	<u>\$ 29,863,977</u>	<u>\$ 24,865,837</u>	<u>\$ 3,562,748</u>	<u>\$ 1,435,392</u>

- (a) Common stocks include mostly large and mid cap domestic equities
- (b) Includes large cap issues focused on managed volatility (77%), small and midcap issues (23%)
- (c) Investment in Chinese based issues
- (d) Investments in small and mid cap funds
- (e) Investments consist primarily of ETFs of large cap growth and value issues (38%), small and mid cap issues (13%), commodity based issues (26%) and preferred stock index fund (23%)
- (f) Invests in the MCSI Index for emerging markets issues (28%) and other non-U.S. issues (72%)
- (g) Invests in indexes for inflation protected bonds (33%), and non-U.S. bonds (67%)
- (h) Invests primarily in institutional core fixed income (38%), high yield bond fund (23%), short and mid-term bonds (1%) and global corporate bond funds (38%)
- (i) Opportunistic hedge fund employing multiple strategies including credit hedging, long/short investing, arbitrage, event driven investing, and other multi-strategy investing

**DETRIX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The fair value of plan assets at December 31, 2009 by category is as follows:

<u>Asset Category</u>	<u>Fair Value Measurements at December 31, 2009</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents .....	\$ 1,751,610	\$	\$ 1,751,610	\$
Equity securities:				
Common stocks (a) .....	3,042,424	3,042,424		
Mutual funds institutional equity (b).....	5,569,322	5,569,322		
Mutual funds institutional international equity (c)	2,304,270	2,304,270		
Closed end mutual funds.....	35,535	35,535		
Exchange traded funds equity (d).....	2,271,594	2,271,594		
Exchange traded funds international equity(e).....	682,551	682,551		
Fixed income securities:				
Exchange traded funds fixed income (f).....	1,781,723	1,781,723		
Mutual funds institutional fixed income (g).....	6,990,595	6,990,595		
U.S. government and agencies .....	350,313		350,313	
Collateralized mortgage obligations.....	266,794		266,794	
Municipal securities .....	523,260		523,260	
Corporate bonds .....	305,707		305,707	
Limited partnership interest (h).....	<u>1,430,521</u>			<u>1,430,521</u>
Total.....	<u>\$ 27,306,219</u>	<u>\$ 22,678,014</u>	<u>\$ 3,197,684</u>	<u>\$ 1,430,521</u>

- (a) Common stocks include mostly large and mid cap domestic equities
- (b) Includes investments focused on managed volatility (65%), small and midcap issues (16%)
- (c) Investment in total world securities, excluding the U.S.
- (d) Investments consist primarily of ETFs focusing on Russell 1000 index, midcap growth, and sector funds concentrating on commodities and other natural resources
- (e) Invests in the MCSI Index for emerging markets
- (f) Invests in index es for corporate bonds (30%), inflation protected bonds (28%), treasury bonds (28%) and emerging market debt (14%)
- (g) Invests primarily in institutional core fixed income (57%), high yield bond fund (19%), investment grade corporate bond fund (9%), total return bond funds (6%) and global corporate bond funds (4%)
- (h) Opportunistic hedge fund employing multiple strategies including credit hedging, long/short investing, arbitrage, event driven investing, and other multi-strategy investing

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (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, 2010 and 2009:

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Balance - Beginning of year .....	\$ 1,430,521	\$ 1,380,277
Unrealized gains .....	4,871	50,244
Balance - End of year .....	<u>\$ 1,435,392</u>	<u>\$ 1,430,521</u>

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

<b>Year</b>	<b>Amount</b>
2011	\$ 2,618,123
2012	2,519,359
2013	2,595,361
2014	2,571,358
2015	2,620,306
2016-2020	13,422,298

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

	<b>2010</b>	<b>2009</b>
<b><i>Change in Projected Benefit Obligation</i></b>		
Benefit obligation at January 1 .....	\$ 37,881,789	\$ 40,218,282
Service cost .....	14,563	320,855
Interest cost .....	2,174,462	2,342,666
Actuarial (gain) loss .....	(275,854)	8,462
Curtailment .....	(28,949)	(2,785,640)
Benefits paid in measurement year .....	(2,255,296)	(2,222,836)
Change in actuarial assumption .....	1,101,994	--
Benefit obligation at December 31 .....	<u>\$ 38,612,709</u>	<u>\$ 37,881,789</u>
<b><i>Change in Plan Assets</i></b>		
Fair value of assets at January 1 .....	\$ 27,306,219	\$ 24,471,118
Actual return on assets .....	3,200,748	4,176,709
Contributions .....	1,612,306	881,228
Benefits paid in measurement year .....	(2,255,296)	(2,222,836)
Fair value of assets at December 31 .....	<u>\$ 29,863,977</u>	<u>\$ 27,306,219</u>
Funded status as of December 31 .....	<u>\$ (8,748,732)</u>	<u>\$ (10,575,570)</u>
<b><i>Items Not Yet Recognized as a Component of Net Periodic Pension Cost</i></b>		
Unrecognized net loss .....	<u>\$ 13,040,056</u>	<u>\$ 13,662,344</u>
<b><i>Net Periodic Pension Cost</i></b>		
Service cost .....	\$ 14,563	\$ 320,855
Interest cost .....	2,174,462	2,342,666
Expected return on assets .....	(2,266,716)	(2,046,006)
Net amortization .....	485,447	858,067
Net periodic pension cost .....	<u>\$ 407,756</u>	<u>\$ 1,475,582</u>

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

***Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income***

	<u>2010</u>	<u>2009</u>
Asset investment (gain) loss.....	\$ (934,032)	\$ (2,122,241)
Curtailment.....	(28,949)	(2,824,265)
Change in discount rate assumption.....	1,101,994	--
Amortization of net loss.....	(485,447)	(809,517)
Amortization of prior service cost.....	--	(9,925)
Experience (gain) loss.....	<u>(275,854)</u>	<u>--</u>
Total recognized in other comprehensive (loss) income.....	<u>(622,288)</u>	<u>(5,765,948)</u>
Total recognized in net periodic benefit and other comprehensive (income).....	<u>\$ (214,532)</u>	<u>\$ (4,290,366)</u>

At December 31, 2010 and 2009, the net unfunded status of the pension plans of \$8,748,732 and \$10,575,570, 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 2011 is \$439,001.

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

	<u>2010</u>	<u>2009</u>
Discount rate.....	5.75%	6.00%
Expected rate of return on plan assets.....	8.50%	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.

For those plans in which accumulated benefit obligations were in excess of plan assets at December 31, 2010, the projected benefit obligation, accumulated obligation, and fair value of plan assets were \$38.6 million, \$38.6 million and \$29.9 million, respectively, at that date.

For those plans in which accumulated benefit obligations were in excess of plan assets at December 31, 2009, the projected benefit obligation, accumulated obligation, and fair value of plan assets were \$37.8 million, \$37.4 million and \$27.3 million, respectively, at that date.

The Company contributed \$1,612,000 and \$881,000 to its pension plans in 2010 and 2009, respectively. The pension investment portfolios earned returns of 11 percent in 2010 and 17 percent in 2009, as the U.S. and global equity markets partially recovered from the significant market downturns of 2008. The improvement in the performance of the pension portfolio, and the pension freeze enacted across the Company in 2009, resulted in a decrease in the unfunded status of the plans from \$15,747,164 at December 31, 2008 to \$10,575,570 at December 31, 2009 and to \$8,748,732 at December 31, 2010.

The Company estimates, based on preliminary estimates from its actuary, that its 2011 consolidated pension expense will increase to approximately \$500,000 from \$408,000 in 2010. Cash contributions to the pension plans for 2011 are expected to be approximately \$1.7 million compared to \$1.612 million for 2010. Assuming a constant discount rate, if actual rates of return on the pension portfolio exceed the expected 8.5% rate of return, contribution levels and expense could decline; if actual investment returns are less than expected, required contributions and expense could be higher. 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.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**401(k)**

The Company sponsors a 401(k) defined contribution plan covering its salaried employees. Employees can contribute up to 100 percent of their salaries. The Company matched contributions at a rate of \$0.25 for every dollar contributed by the employee, up to a maximum 8 percent of pay up to May 31, 2009; at that date, the Company match was suspended. During November 2010, the Company initiated a Safe Harbor Employer Contribution Program by which the Company will contribute a fixed percentage of wages for all employees eligible to participate in the 401(k) plan for 2010. The Company made a one-time contribution of 1.5 percent of all eligible participant 2010 wages. Subsequent to 2010, Company contributions will be made throughout the year at the rate of 3 percent of eligible participant wages. Total 2010 contributions approximated \$181,000. The Company's 2009 matching contributions totaled \$72,000.

**Postretirement Medical Costs**

The Company sponsored a contributory defined benefit healthcare program for certain eligible retirees who retired on or before December 31, 2005, subject to various conditions and limitations. During 2009, the program was amended such that beginning January 1, 2011, the Company would no longer contribute toward healthcare premiums for any post-65-year-old retiree. This change resulted in an effective termination of the plan; consequently, the Company recognized a 2009 pre-tax curtailment gain of \$1,760,351.

The Company's postretirement benefit plans are not funded. The status of the plan follows:

Accumulated postretirement benefit obligation — January 1, 2009.....	\$	1,647,914
Service cost .....		--
Interest cost .....		90,385
Amendment .....		(1,177,781)
Actuarial (gain) .....		(185,465)
Benefits paid in measurement year.....		(178,717)
Accumulated postretirement benefit obligation — December 31, 2009		<u>196,336</u>
Fair value of plan assets .....		<u>--</u>
Funded status.....	\$	<u>(196,336)</u>
<b>Items Not Yet Recognized as a Component of Net Periodic Postretirement Benefit Cost (NPPBC)</b>		
Prior service cost .....	\$	--
Net (gain) or loss .....		--
Total not yet recognized as component of NPPBC .....	\$	<u>--</u>
<b>Net Periodic Postretirement Benefit Cost/(Income)</b>		
Service cost .....	\$	--
Interest cost .....		90,385
Curtailment gain from plan termination .....		(1,760,351)
Net amortization gain .....		(125,613)
Net periodic postretirement benefit cost/(income) .....		<u>(1,795,579)</u>
<b>Other Changes in Benefit Obligations Recognized in Other Comprehensive Income</b>		
Net (gain) or loss .....		397,105
Amortization of net gain/(loss).....		(8,056)
Amortization of prior service cost.....		<u>133,669</u>
Total recognized in other comprehensive income .....		<u>522,718</u>
Total recognized in net periodic postretirement benefit cost/(income) and other comprehensive income.....	\$	<u>(1,272,861)</u>

## DETREX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The assumed discount rate used in determining the accumulated postretirement benefit obligation was 6.00% at December 31, 2009. The net unfunded status of the postretirement benefit plan of \$196,336 at December 31, 2009 is presented on the consolidated balance sheet as a current liability of \$163,000 and a non-current liability of \$33,336. During 2010, all plan obligations were settled through payment of benefits and costs and there are no future obligations under the plan.

#### 10. Contingencies and Environmental Matters

The Company maintains reserves for anticipated expenditures over the next several years in connection with remedial investigations, feasibility studies, remedial design, and remediation relating to the cleanup of environmental contamination at several sites, including properties owned and properties formerly owned by the Company. Some of these studies have been completed; others are ongoing. In some cases, the methods of remediation remain to be agreed upon. The Company expects to continue to incur significant professional fees, expenses, and capital expenditures in connection with its environmental compliance efforts.

The Company conducts regular reviews of its environmental matters and has made provisions in its financial statements for these matters. It believes that the December 31, 2010 environmental reserve of \$3.6 million is adequate given known information. 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. Going forward the Company may need to replenish the environmental reserve with amounts at least similar to amounts spent. The periodic replenishment of the environmental reserve may continue until the resolution of individual environmental sites is more clearly determined.

During 2010, the Company spent approximately \$2.07 million for environmental matters, including a \$250,000 installment payment on a site settled with the U.S. Environmental Protection Agency (EPA) for \$1 million (in 2009). The environmental reserves at December 31, 2010 totaled \$3.6 million (including the \$2.2 million reserved for PCT properties noted below). In addition, the Company has classified the remaining \$500,000 EPA settlement as accounts payable at December 31, 2010. In 2009, the Company spent a total of approximately \$4.1 million for environmental matters, significantly more than the \$2.5 million planned spending at the beginning of 2009. This was primarily due to a greater degree of progress on a large landfill construction project than anticipated; additionally, spending accelerated on one of the PCT sites and significant spending was incurred at our site in Ashtabula, where an alternative remediation plan was developed. During 2009, provisions totaling \$3.9 million were recorded to increase the environmental reserves. At December 31, 2009, the environmental reserves totaled \$5.3 million (\$3.4 million relating to PCT). The Company expects to spend approximately \$1.75 million on environmental issues in 2011. The amount is similar to the 2010 spending levels. Details of the environmental charges and activities in the larger components of the environmental reserves are summarized below.

The remediation of the Fields Brook in Ashtabula, Ohio was completed by the Fields Brook Action Group (“FBAG”) in 2002. In 2008, PCB contamination was discovered migrating off of a neighboring property into the Brook. As a result of this contamination, significant excavation work was performed by the neighbor (not the responsibility of the FBAG or the Company). During this excavation, additional contamination was encountered in areas which were not part of the initial cleanup. The FBAG was responsible for some of this contamination, and the Company spent \$143,000 in 2008 participating with the other FBAG potentially responsible parties in the cleanup of this contamination. In 2009, the Company spent \$152,000 to complete the project, and recorded a pre-tax charge of \$85,000 to increase the reserve. In late 2010, the Company was advised that additional contamination was discovered. The Company recorded a pre-tax charge of \$170,000 to support the cleanup and routine maintenance costs until the next five-year review.

The last project in the Fields Brook watershed has been the navigational dredging and cleanup of the Ashtabula River. This project, in which the Company participated in a partnership with a number of other companies and public entities, involved the construction of a landfill and pipeline to transport dredged material, and was substantially completed in 2008. The Company funded approximately \$1.8 million toward construction costs in 2006-2007, and paid \$339,000 to settle other claims with the U.S. government in 2008. In 2008, there was remediation work further downstream supervised by the U.S. Army Corp of Engineers (not the responsibility of the Company). The group of participating companies received reimbursement from the U.S. government for its use of the group’s equipment and landfill, thereby reducing the Company’s share of the overall project costs. At the completion of the project, the Company was anticipating reimbursement of excess funds held by the group trust account. After deliberations by the group, it was decided that sufficient funds would be held back in order to prefund a trust account which would pay its anticipated obligations for operating and maintenance costs on the landfill for the next 30 years. This action resulted in the Company receiving a lower reimbursement than had originally been contemplated; as a result, the

## DETREX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Company recorded a pre-tax charge of \$305,000 in 2009. The Company expects to realize a \$100,000 refund from the site operation that is recorded as a current receivable at December 31, 2010.

A portion of the Company's reserves is to cover the cost of operating and maintaining extraction test wells for source control installed on the Company-owned Ashtabula, Ohio property to accomplish remediation of the site ("test wells"). These test wells were to operate for two years, at which time their performance was to be evaluated for effectiveness. During 2003 and 2004, the test wells had some success in extraction of contamination; however, significant operational difficulties were encountered. In 2004, the EPA requested that the Company design and test an alternative extraction well concept; the Company's alternative design was submitted to the EPA in 2005. The EPA approved the plan for the alternative well design at the end of 2006. The Company began installing two new wells utilizing the alternative well design in 2007, and they became operational in 2008; initial assessment of their performance was disappointing. The original plan was for a one-year evaluation period for this alternative design, followed by installation of additional wells of that design. However, based on the initial disappointing performance of these alternative wells, the Company proposed a different approach to the EPA, which would involve the construction of interceptor trenches instead of wells. The Company has submitted a preliminary design proposal for the trench system. Additionally, the Company remediated a small area adjoining its property where soil contamination was encountered in 2009; the cleanup costs amounted to \$180,000 in 2009 and \$194,000 in 2010. The Company recorded a 2009 pre-tax charge of \$275,000 to account for these cleanup costs, and to increase the reserve to the amount of the anticipated cost of the trench system and the operation of the current well system until the trenches are in place.

The Company settled an environmental claim in 1998 which required it to participate with a number of other companies to cap a landfill on property where it had previously disposed of chlorinated solvents in the 1960s. Construction commenced on this landfill cap in 2009 and continued during 2010. The Company received assessments of approximately \$2.0 million in 2009 as its share of the construction costs for that period. The Company recorded an additional pre-tax charge of \$350,000 in 2009 to recognize its share of the costs to complete the landfill construction. At the conclusion of this project, the Company will have no further obligation to the landfill owner. The Company expects that its share of the future overall project spending will not be material.

In 2008, the Company was notified by the U.S. Department of Justice ("DOJ") that it was seeking reimbursement from the Company for past government oversight costs relating to an environmental remediation project in Tacoma, Washington. The Company had been involved with this site as part of a joint operating company that was dissolved in the 1950s. The government claimed the Company had liability for the EPA's past costs. The Company recorded a pre-tax charge of \$750,000 in the third quarter of 2008. In 2009, the issue was settled for \$1,000,000, payable in four equal installments over three years through 2012. As existing reserves were reviewed and adjusted, this settlement did not require a further charge to income in 2010. The \$500,000 balance due to the EPA is classified as accounts payable in the December 31, 2010 consolidated balance sheet.

The Company has established reserves for estimated costs associated with the studying, sampling, and cleanup of the former PCT properties, which have varying degrees of chlorinated solvent contamination. The Company spent approximately \$934,000 in 2010 and \$984,000 in 2009 toward remediation efforts on these sites. Additional contamination was discovered at three PCT sites in 2010, as a result of sampling performed in accordance with closure protocols. Further delineation and characterization sampling plans are being developed and performed in conjunction with input from environmental consultants and regulatory agencies; subsequently, remediation strategies will be negotiated with the regulators. During 2009, environmental charges of \$1,600,000, pre-tax, were recorded to provide for additional sampling, consulting, remediation and oversight costs associated with one of the sites where significant levels of contamination had been discovered. An additional charge of \$440,000, pre-tax, was recorded in 2009 to provide for a pilot remediation plan and shared cleanup costs at one of the other heavily contaminated sites. Anticipated future required spending on the remaining sites, coupled with the expenditures made in 2009, resulted in an additional \$260,000 charge to the reserve. The total pre-tax environmental charge recorded for PCT properties in 2009 was \$2.3 million. During 2010, pre-tax charges for PCT properties totaled \$480,000. At December 31, 2010, approximately \$2.2 million remained in the environmental reserve for completion of the closure process for the PCT sites; 2011 spending related to the projects for these sites is projected to be approximately \$1,150,000 (see Note 8). The Company believes, based on current conditions, that its overall reserve levels are sufficient to address its anticipated remediation requirements for these sites. However, should the scope of remediation requirements change significantly from those currently projected, or unanticipated conditions are discovered during the remediation process, the Company may be required to record additional charges to its environmental reserves; these charges could be material.

The 2009 bankruptcy filing by Chrysler LLC resulted in the Company being brought back into environmental remediation at a number of sites in Michigan. These were sites for which the Company had prefunded its estimated share of the projected

## DETRIX CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

remedy to the group back in the late 1980s and early 1990s, in exchange for being released from future obligations. However, due to the joint and several liability of all the participating companies in the group, when Chrysler declared bankruptcy, the Company was brought back in to absorb the loss with the other participants. This resulted in the Company recognizing a 2009 \$500,000 charge, pre-tax, which will be spent over the next several years. Total 2010 expenditures for the Chrysler sites totaled \$196,000, including a deposit expected to be spent for site operation and maintenance for 2011.

The Company is a participant in another site where contamination was discovered several years ago. In 2010, the Company spent \$39,000 for its share of cleanup and site maintenance and recorded a pre-tax charge of \$105,000 for site operation and maintenance to cover costs through 2013. At that time, the Company expects that a determination of the site's contamination progress may be available.

In addition to the above, there are several other claims, including product liability claims, and lawsuits pending against the Company and its subsidiaries. The amount of liability to the Company 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.

#### 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, 2010 and 2009.

#### 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% (previously 30%) 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% or more of the Company's outstanding Common Stock. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates.

If any person or group becomes the beneficial owner of 40% or more of the Company's outstanding Common Stock, or if a holder of 40% 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% 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% 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 public announcement that a person or group has acquired 40% 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.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**13. Stock Options**

On May 4, 2006, the shareholders of the Company approved the 2006 Stock Option Plan, reserving 200,000 options for future grants for key executive employees and Directors. At December 31, 2010, there were 14,000 options available for future grants under the Plan. A total of 17,000 options remain outstanding under the 1993 Management and Directors' Option Plans, which can issue no further grants.

A summary of the fixed stock option grants remaining under the 2006 Stock Option Plan and the 1993 Management Plan as of December 31, 2010 and 2009 and changes during the years is presented below.

	<u>1993 Management Plan</u>		<u>2006 Plan</u>	
	<u>Shares Under Option</u>	<u>Weighted Average Exercise Price</u>	<u>Shares Under Option</u>	<u>Weighted Average Exercise Price</u>
<b>2009</b>				
Outstanding at beginning of year .....	17,000	\$4.00	141,000	\$ 6.65
Granted .....	--	--	25,000	1.80
Exercised .....	--	--	--	--
Forfeited .....	--	--	--	--
Outstanding at end of year.....	<u>17,000</u>	<u>4.00</u>	<u>166,000</u>	<u>\$ 5.92</u>
<b>2010</b>				
Granted .....	--	--	--	--
Exercised.....	--	--	--	--
Forfeited .....	--	--	--	--
Outstanding at end of year.....	<u>17,000</u>	<u>\$ 4.00</u>	<u>166,000</u>	<u>\$ 5.92</u>

At December 31, 2010, there were 183,000 options outstanding. Of the options outstanding at December 31, 2010, the weighted average remaining life was 5.28 years. All of the options are exercisable, and 42,000 of the options are in the money. The range of exercise prices is from \$1.80 to \$9.00. The following table summarizes information about stock options outstanding at December 31, 2010:

<u>Range of Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Shares Under Option</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Shares Under Option</u>	<u>Weighted Average Exercise Price</u>
\$1.80-3.00 .....	25,000	8.18	\$ 1.80	25,000	\$ 1.80
\$3.01-6.00 .....	17,000	1.31	4.00	17,000	4.00
\$6.01-8.00 .....	134,000	4.99	6.52	134,000	6.52
\$8.01-9.00 .....	<u>7,000</u>	6.09	9.00	<u>7,000</u>	9.00
\$1.80-9.00 .....	<u>183,000</u>	5.13	5.74	<u>183,000</u>	5.74

In accordance with FASB ASC 718, *Stock Compensation*, the Company expensed the stock-based compensation utilizing the fair value method to value options granted in 2009. The accounting guidance requires companies to account for the fair value of share-based payment awards on the grant date using an option pricing model. The value of the award that is ultimately expected to vest is recognized over the requisite service periods in the Company's consolidated state ments of operations. The expense recognized for the 2009 grant was \$25,000. The Company accounted for compensation expense using the modified prospective application method for the option grants issued under the 2006 Stock Option Plan. There were no options granted during 2010.

The aggregate intrinsic values of options outstanding, all of which were exercisable, were approximately \$145,000 at December 31, 2010.

**DETREX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

At the share grant date, the fair value of options granted in 2009 amounted to \$25,000 (\$1.00/share). The fair value of the stock option grant made during 2009 was estimated on the grant date using the Black-Scholes option pricing model under the following weighted average assumptions:

Expected dividend yield.....	0.0%
Expected volatility.....	61.0%
Risk-free interest rate.....	4.00%
Expected holding period.....	5.0 years

**14. Segment Reporting**

The Company has two operating segments that meet the quantitative thresholds of FASB ASC 280, *Segment Reporting*, as follows:

- Harvel Plastics — manufactures PVC and CPVC pipe and custom extrusions
- The Elco Corporation — produces petroleum additives, hydrochloric acid and fine chemicals

The “other” category includes property matters, environmental charges, consulting fees and certain corporate and employee benefit items. Data (in thousands) for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Net sales:		
Harvel Plastics.....	\$ 58,376	\$ 50,394
Elco Corporation.....	35,289	24,150
Total.....	<u>\$ 93,665</u>	<u>\$ 74,544</u>
Earnings (loss) from operations and before income taxes:		
Harvel Plastics.....	\$ 1,525	\$ 340
Elco Corporation.....	6,892	3,102
Subtotal.....	\$ 8,417	\$ 3,442
Corporate administrative expense.....	(2,042)	(2,329)
Corporate interest expense (1).....	(920)	(705)
Corporate pension provision (2).....	(410)	(1,013)
Other (3).....	(1,294)	(3,847)
Total pre-tax income (loss).....	<u>\$ 3,751</u>	<u>\$ (4,452)</u>
Depreciation and amortization:		
Harvel Plastics.....	\$ 1,751	\$ 1,799
Elco Corporation.....	1,016	1,040
Other.....	7	13
Total.....	<u>\$ 2,774</u>	<u>\$ 2,852</u>
Total assets:		
Harvel Plastics.....	\$ 27,806	\$ 26,487
Elco Corporation.....	19,856	14,711
Other (4).....	1,777	6,044
Total.....	<u>\$ 49,439</u>	<u>\$ 47,242</u>
Sales by customer location:		
United States.....	\$ 78,231	\$ 64,074
Outside United States.....	15,434	10,470
Total.....	<u>\$ 93,665</u>	<u>\$ 74,544</u>

(1) Includes intercompany interest expense, which is eliminated in consolidation

(2) Remaining components of pension expense are included in the business unit results.

(3) 2010 include a \$755,000 environmental charge. There was a \$3,900,000 environmental provision in 2009. 2009 also includes a \$1,619,000 property writedown and a \$1,760,000 gain from termination of a postretirement medical plan.

(4) Includes intercompany eliminations, land and property

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During 2010, the Company earned pre-tax income of \$3,750,946, compared to a pre-tax loss of \$4,452,114 in 2009. The 2009 operating results included a number of special charges. The Company recorded a \$1,618,818 pre-tax charge to write down the value of excess property, a pre-tax charge of \$3,900,000 for environmental matters and recognized a pre-tax gain of \$1,760,000 from the termination of a postretirement health benefit plan. The 2010 results included a \$755,000 pre-tax environmental charge.

Total Company 2010 revenues increased by \$19.1 million (26 percent) compared to 2009, as each of the Company's business units experienced profitable growth. This resulted in significantly improved gross profit for 2010 compared with 2009. Consolidated selling, general and administrative expenses increased by approximately \$391,000, or 3%, compared to 2009. This resulted in an overall improvement in consolidated net income for 2010.

During 2010, the Company changed its financial presentation by eliminating the "discontinued operations" classification for previously sold businesses. The 2009 financial statements were reclassified to be comparable to the 2010 presentation. The Company made additional provisions totaling \$755,000 to its environmental reserve to provide for future expenditures of consulting fees, delineation costs and certain remedial activities for several contaminated sites which have varying levels of contamination. The 2010 environmental provision is significantly lower than environmental spending for 2010 of \$2,070,688.

The Detrex Corporation shareholders' share of 2010 net income of \$2,088,320 is more than a \$5 million improvement from the 2009 Detrex Corporation shareholders net loss of \$2,963,752.

### Comparative Operating Data

Comparative data includes continuing operations only.

	(\$ in table in thousands)			
	2010		2009	
	\$	%	\$	%
Net sales.....	93,665	100.0	74,544	100.0
Gross margin.....	20,142	21.5	14,303	19.2
Selling, general and administrative expenses .....	12,070	12.9	11,680	15.7
Depreciation and amortization.....	2,774	3.0	2,852	3.8
Pre-tax income (loss) (1) .....	3,751	4.0	(4,452)	(5.9)

(1) Includes \$3,900,000 environmental charge, \$1,616,218 property writedown and \$1,765,000 gain from termination of postretirement benefit plan recorded in 2009.

Harvel's 2010 revenue of \$58.4 million was an increase of \$8 million (16 percent) compared to 2009 revenues of \$50.4 million. Pipe volume increased 13 percent year over year, reflecting a balanced product mix across the entire product line. A PVC pipe price increase went into effect in 2010 which improved PVC margins. Harvel's 2010 margins increased slightly to 10.6 percent from 9.4 percent in 2009 because the volume growth rate was higher than the increase in the manufacturing costs. Overall, the increased revenues and higher gross margin percentage resulted in a gross margin increase of \$1,467,964 compared to 2009. Selling, general and administrative expenses increased by 4.6 percent, primarily due to increased volume. The 2010 operating earnings increased to \$1.5 million, compared to \$0.3 million in 2009.

Elco's 2010 record revenues of \$35.3 million represented an \$11.1 million (46 percent) increase compared to 2009 revenues of \$24.2 million. Elco realized significant growth in the lubricants additives business from both domestic and export customers. Gross margins, expressed as a percentage of sales, were 32.5 percent in 2010 compared to 28.8 percent in 2009 due to significantly higher sales volume and profitable product mix. The 2010 selling, general and administrative (SGA) expenses increased by approximately \$700,000. However, the SGA expenses expressed as a percentage of sales decreased to 13 percent in 2010 from 16 percent in 2009. Overall, operating earnings at Elco increased to \$6.9 million in 2010 from \$3.1 million in 2009.

The 2010 corporate expenses decreased by 8.6%, as lower personnel costs and lower pension expense offset higher interest expense.

The 2010 provision for depreciation and amortization declined by approximately \$78,000 compared to 2009, reflecting the lower capital investments made in the business units in the past few years.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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Interest expense related to the revolving credit and the term loan facilities and equipment financing increased by approximately \$264,000 in 2010 compared to 2009, primarily due to the higher borrowing rates for most of 2010 and higher amounts borrowed from late 2009 through much of 2010 to finance the Company's profitable growth. The Company's effective borrowing rate was 4.1% in 2010 compared to 2.9% in 2009. At December 31, 2010, the outstanding interest-bearing debt balance was \$618,139 higher than December 31, 2009.

The Company's income tax provisions are based on the pre-tax income (loss), adjustments of estimates, and state and local tax expense. State and local 2010 income tax expense increased by \$275,000 compared to 2009, due to the significant improved profitability at Harvel and Elco. While the Company will not pay significant federal income taxes for the near future due to utilization of net operating loss carryforwards and changes in timing differences, Elco and Harvel will be liable for 2010 state and local taxes of approximately \$188,000 based on their 2010 profitability.

**Liquidity, Financial Condition, and Capital Resources**

During 2010, the Company executed certain amendments to the 2008 credit agreement with its principal lender, JPMorgan Chase Bank, N.A. The most recent amendment, executed in late December 2010, reduced the Company's borrowing cost to one-half percent below the bank's prime lending rate on all outstanding borrowings. The amendment contains covenants requiring the Company to meet defined levels of tangible net worth, maximum leverage ratios and fixed charge coverage ratios. The Company was in compliance with all bank covenants at December 31, 2010. Previous loan covenant defaults under the credit agreement were waived by the bank.

The Company utilized internally generated funds from its business units and increased net bank borrowings by \$618,139 in 2010 to finance its overall operations, pension funding of \$1,612,000, environmental expenditures of \$2,071,000, and capital expenditures of approximately \$2,857,000.

Management undertook a number of cost reduction actions in a difficult 2009 as the economy worsened. In addition to general cost and expense reductions, the Company froze its defined benefit pension plans and postretirement health benefit plan, eliminated the 401(k) match, officer salary reductions, headcount reductions and pay freezes at all operating locations. In addition, aggressive working capital management, particularly in inventory and accounts receivable, generated cash. With the return to profitability in 2010, the Company reinstated salary levels and provided supplemental contribution to all 401(k) plan eligible participants.

**Outlook**

There is continued optimism regarding the economic recovery, and more importantly recovery in the markets in which Detrex companies operate. The functioning credit markets serving Harvel's customers should support recovery in the construction markets. The overall manufacturing economy has shown improvement, which should positively impact Harvel. Elco's record-setting 2010 performance is expected to continue. The 2009 and 2010 actions of freezing the pension and post-retirement health benefit plans and closely monitoring and controlling expenses enabled the Company to lower its cost base, and position the Company to continue to improve its profitability. The existing credit agreement should provide sufficient liquidity to operate the business.

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**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, and adjustments to recorded amounts are made if the changed conditions have a significant effect on cost estimates. The Company recorded pre-tax environmental charges of \$755,000 in 2010. At December 31, 2010, the Company has accrued approximately \$3.6 million in environmental reserves. In addition, an environmental settlement with the U.S. Environmental Protection Agency totaling \$500,000 is included in accounts payable. The estimates supporting the reserve amount were based on both internal company sources and third-party reviews of estimated costs for characterization, closure, remediation, and monitoring for each of the sites. However, such estimates for remediation, as well as other environmental factors including any 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. It is not possible to determine whether additional losses, due to such changed circumstances, will occur or to reasonably estimate the amount or range of any potential additional loss. Spending requirements of approximately \$1.75 million are anticipated for environmental issues in 2011, and are then projected to moderate to the \$1 million level annually in 2012, and lesser amounts thereafter. The Company conducts regular reviews of its environmental matters and has made provisions in its financial statements for these matters. It believes that the December 31, 2010 environmental reserve of \$3.6 million is adequate given known information. 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. Going forward the Company may need to replenish the environmental reserve with amounts at least similar to amounts spent. The periodic replenishment of the environmental reserve may continue until the resolution of individual environmental sites is more clearly determined. For further discussion of these matters, see Note 10 to the 2010 consolidated financial statements.

The Company's pension plans have been underfunded for many years. The underfunded status of the plans went from \$15.7 million at December 31, 2008 to \$10.6 million at December 31, 2009 to \$8.7 million at December 31, 2010. The Company recognized 2010 pension expense of \$408,000 compared to \$1.4 million in 2009 and \$1.0 million in 2008. Due in large part to the freezing of the plans during 2009 and 2010, the annual pension expense is currently estimated to be \$.5 million to \$1 million in future years. Funding of the pension obligation was \$1.6 million in 2010 compared to \$0.9 million in 2009, and is expected to approximate \$1.7 million in 2011. 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 over the past several years has been to divest or close the unprofitable non-core businesses, while investing in the stable and consistently profitable businesses of Harvel and Elco. The Company must continue to operate profitably to fund its current operating needs, invest in the businesses via capital expenditures, and allow it to meet its pension, environmental and other legacy obligations; there can be no assurance that the Company will be able to achieve all of these objectives.

**FASB Codification Discussion**

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. Over the years, the FASB and other designated GAAP-setting bodies have issued standards in the form of FASB Statements, Interpretations, FASB staff positions, EITF consensuses, AICPA Statement of Position, etc. One standard which when applied has significance to our reporting and disclosure is FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, issued in September 2006.

The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release, in July 2009, of the FASB Accounting Standards Codification ("Codification" or "ASC"). To the Company, that means that instead of following the pension rules in Statement No. 158, we will follow the guidance in Topic 715, *Retirement Benefits*. The Codification does not change how the Company accounts for its pension or the nature of related disclosures made. However, when referring to guidance issued by the FASB, the Company refers to topics in the ASC rather

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than Statement No. 158. The above change was made effective by the FASB for periods ending on or after September 15, 2009. We have updated references to GAAP in this Annual Report to reflect the guidance in the Codification.

**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 the following critical accounting estimates 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 obligation for environmental matters 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 provide a basis for the estimates recorded in the financial statements. The recorded liabilities are adjusted periodically, as remediation efforts progress or additional technical or legal information becomes available. The Company had a total of \$3.6 million accrued for environmental obligations at December 31, 2010 and \$5.3 million accrued for these obligations at December 31, 2009. These are the Company's best estimates of the future costs with respect to environmental matters. Based on present knowledge, management believes that there will not be further material changes to the reserves in the near term; however, it should be noted that the Company has found it necessary to make significant total upward revision to the environmental reserves over the past two years to accommodate changing facts and circumstances. As the large remediation and construction projects the Company has been involved in over the past few years are completed, the uncertainties surrounding these liabilities should decrease. 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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***Deferred Tax Assets***

The Company currently has significant net deferred tax assets resulting from net operating losses and other 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 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.

***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 return on plan assets, discount rates at which the liabilities could be settled at December 31, 2010, 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. Effective May 31, 2009, the plans for nonunion employees were frozen, and on December 31, 2009, the Company decided to freeze the union plan. The actual union plan freeze was completed in August 2010. Additionally, 2009 portfolio returns exceeded the rate of return assumption, resulting in a \$5 million reduction in the underfunded position of the plans. In 2010, the impact of the pension freeze and continued positive investment results further reduced the plans' underfunding by an additional \$1.8 million. Future funding requirements are anticipated to be in the \$1.7 million annual range.

The expected long-term rate of return on assets is developed with input from the Company's actuarial firm and independent pension 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 for 2010 and 2009 was 8.5%. Actual market returns were 11.7% in 2010 and 16.8% in 2009. Assuming a constant discount rate, if actual rates of return on the pension portfolio exceed the expected 8.5% 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 obligations of the pension plans is based on rates at year end on long-term corporate bonds receiving ratings of AA or better by a recognized rating agency. The assumed discount rate was 5.75 and 6 percent at December 31, 2010 and 2009, 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 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 2009 plan freezes.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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The Company reviews the actuarial assumptions annually and may change the assumptions in the future.

**SUPPLEMENTARY INFORMATION (Unaudited)  
Selected Quarterly Data**

	2010 Quarters				2009 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Thousands of dollars, except per share amounts)							
Net sales .....	\$21,996	\$26,300	\$24,190	\$21,179	\$ 18,329	\$ 19,446	\$18,834	\$ 17,935
Gross margin on sales .....	4,594	5,950	5,304	4,294	4,726	3,574	3,017	2,986
Pre-tax earnings (loss) (1)	220	1,505	1,352	674	(3,289)	(27)	(549)	(587)
Net income (loss) .....	127	880	811	404	(2,286)	(9)	(304)	(324)
Net income (loss) attributable to Detrex.....	108	866	769	345	(2,321)	(22)	(300)	(321)
Basic earnings (loss) per common share attributable to Detrex shareholders.....	0.06	0.55	0.49	0.22	(1.47)	(0.01)	(0.19)	(0.20)

(1) Includes 2010 environmental charge of \$300 in the 3<sup>rd</sup> quarter and \$455 in the 4<sup>th</sup> quarter and an environmental charge of \$3,900 in the 4<sup>th</sup> quarter of 2009

**BUSINESS**

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation and its subsidiaries (the "Company") manufacture products predominantly for use in the industrial manufacturing and commercial construction markets. Below are detailed descriptions of each subsidiary's product offerings:

**Subsidiaries 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 including pyrroles. 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](http://www.elcocorp.com) and [www.detrexchemicals.com](http://www.detrexchemicals.com)

- **Harvel Plastics, Inc.** — a leading producer of high-quality corrosion resistant PVC and CPVC thermoplastic extrusions. Products manufactured include industrial piping, duct systems, machining profiles and other custom extrusions. Harvel's products are well known for precise blend formulations, superior dimensional stability and high quality. Examples of product lines include: Harvel® PVC and CPVC industrial pressure pipe in sizes ranging from 1/8" through 24" diameters, Harvel® BlazeMaster® CPVC fire sprinkler pipe, Harvel® FlowGuard Gold® and HydroKing® CTS CPVC plumbing piping, Harvel LXT® ultrapure water piping, Harvel Clear™ PVC piping for use in food processing, sight glass and dual containment applications, Harvel FlameTech™ low flame and smoke containment piping and Harvel EnviroKing™ UV for photobioreactors. Harvel's products are used in a wide variety of applications in various markets including: chemical and industrial processing, high purity, food and beverage, fire protection, micro-electronics, water and waste water, commercial hot and cold water distribution systems, power generation and aquaculture to name a few. With manufacturing and warehouse facilities in Pennsylvania, California, and Texas, Harvel supplies its products through wholesalers across North America and globally through agents and distributors. Website: [www.harvel.com](http://www.harvel.com)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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Net sales (in thousands) of each business unit for each of the last two years are set forth below:

	<u>2010</u>	<u>2009</u>
Harvel Plastics, Inc.....	\$ 58,376	\$ 50,394
The Elco Corporation ..	<u>35,289</u>	<u>24,150</u>
Total .....	<u>\$ 93,665</u>	<u>\$ 74,544</u>

For additional information regarding the operating segments of the Company, see Note 14 to the consolidated financial statements for the year ended December 31, 2010.

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 or has applied for various patents and trademarks which aid in maintaining the Company's competitive position; these expire at various times. The expiration of such patents and 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.

Harvel's top five customers and Elco's top five customers generated more than 37 percent of the Company's 2010 consolidated revenues. If business from significant customers is lost, the Company's operating results could be adversely impacted. Both Harvel and Elco have 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, 2010 totaled \$3.6 million, of which \$1.75 million is estimated to be spent in 2011. A more detailed discussion of environmental matters is included in Note 10 to the 2010 consolidated financial statements.

The Company employed 203 persons as of December 31, 2010.

The Company is not engaged in manufacturing operations in foreign countries. For information regarding sales by customer location, see Note 14 to the 2010 consolidated financial statements.

**PROPERTIES**

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

Detrex and its subsidiaries conduct manufacturing, research and warehouse operations in numerous locations, of which seven are owned and three are leased as follows:

1) The Company's lubricants subsidiary, 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, reagent grade chemicals, N-methyl pyrrole, and zinc-based lubricant additives. These facilities are owned by Detrex Corporation and managed by Elco.

3) The Company's plastic pipe subsidiary, Harvel Plastics, Inc. ("Harvel"), manufactures plastic pipe in a plant it owns located on 20 acres of land and 228,500 square feet of office and plant space in Easton, Pennsylvania. This facility is equipped with extruders and special tooling used to manufacture PVC and CPVC pipe from resin and compounds. Production and warehouse facilities have been expanded several times since this subsidiary was acquired in 1968.

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4) Harvel leases a 138,000 square foot facility in Bakersfield, California which was built to suit Harvel's warehouse and manufacturing needs. The lease expires in 2016, with options for three five-year extensions.

5) Harvel leased a 50,000 square foot warehouse in 2007 in the Dallas, Texas area to better serve the Gulf States region. The original lease term for the warehouse is for five years.

6) The Company owns 40 acres of unimproved land in Romulus, Michigan that was formerly utilized by a business that was sold in 2000. The land was reclassified on the 2009 consolidated balance sheet from property held for sale to land.

7) 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.

8) 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.

9) 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.

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

Properties 1-5 above are actively used in operating the Company. The remaining properties relate to businesses that the Company has sold. Properties 7-10 are leased to the purchaser of the Parts Cleaning Technologies ("PCT") business segment until they are exited, remediated, and/or disposed of.

#### **FORWARD LOOKING STATEMENTS**

This document, including the letter to shareholders and the 2010 Annual Report, contains statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). The words "expect," "plan," "estimate," "anticipate," "predict," "believe" and similar expressions and variations thereof are intended to identify forward-looking statements. Additional oral or written forward-looking statements may be made by or on behalf of the Company from time to time and such statements may be included in documents other than this document. Such forward-looking statements involve a number of known and unknown risks and uncertainties. While these statements represent the Company's current judgment with respect to its business, readers of this document are cautioned that forward-looking statements are not guarantees of future performance and that such risks and uncertainties could cause actual results, performance and achievements, or industry results, to differ materially from those suggested herein. The Company undertakes no obligation to release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Forward-looking statements in this document and elsewhere may include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, and adequacy of resources. All forward-looking statements in this document and elsewhere are intended to be made pursuant to the safe harbor provisions of the 1995 Reform Act. Factors that could cause results to differ materially from those projected in the forward-looking statements include: geopolitical unrest, market conditions, cooperation of lenders, environmental remediation costs, liquidation value of assets, costs to exit leased facilities, cost and availability of environmental liability insurance, marketability of real estate, availability of buyers, execution of orders in backlog, retention of key personnel, and other factors.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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**SELECTED FINANCIAL DATA**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Dollars in thousands, except per share amounts)				
Net sales .....	\$ 93,665	\$ 74,544	\$ 98,590	\$ 91,203	\$ 96,985
Net income (loss) (1,2).....	2,222	(2,923)	1,339	2,540	1,755
Net income (loss) attributable to Detrex (1).....	2,088	(2,963)	888	1,981	1,063
Total assets .....	49,439	47,241	52,144	49,138	49,270
Net working capital (2) .....	9,562	9,745	12,787	3,275	3,628
Total bank debt.....	16,674	16,056	14,943	12,688	11,109
Detrex stockholders' equity (3).....	7,165	4,668	4,417	8,703	8,027
Capital expenditures.....	2,857	1,228	3,190	2,824	4,641
Pension plan contributions .....	1,612	881	1,471	2,500	3,313
Environmental expenditures.....	2,071	4,113	1,409	2,201	2,511
Number of employees .....	203	195	211	205	204
Percentages to net sales:					
Gross margin .....	21.5%	19.2%	19.8%	21.9%	22.9%
Net income (loss) attributable to Detrex .....	2.4%	(4.0)%	0.9%	2.2%	1.1%
Net income (loss) attributable to Detrex as a percent of:					
Average total assets.....	4.3%	(5.9%)	1.8%	4.0%	2.2%
January 1st Detrex stockholders' equity.....	44.7%	(67.1%)	10.2%	24.7%	15.2%
Current ratio (3).....	1.6x	1.8x	2.2x	1.2x	1.2x
Basic earnings (loss) attributable to Detrex per common share.....	1.32	(1.87)	0.56	1.25	0.67
Detrex stockholders' equity per common share (3).....	4.52	2.95	2.79	5.50	5.07

- (1) Operating results previously classified as discontinued operations prior to 2010 have been classified as continuing operations in 2010. The presentations for 2006 to 2009 have been restated to conform to the 2010 presentation.
- (2) Increase in 2008 reflects structure of new lending agreement, in which the majority of the revolving facility was replaced with term debt. Increase in 2006 represents FAS 158 presentation requirements of pension liability to noncurrent.
- (3) Includes pension and post-retirement benefit related adjustments in other comprehensive income (loss) of \$409 in 2010, \$3,190 in 2009, (\$5,227) in 2008, (\$1,556) in 2007, (\$217) in 2006.

**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, Providence, Rhode Island

ARBIE R. THALACKER  
Of Counsel, Shearman & Sterling LLP,  
Attorneys, New York City

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

**AUDIT COMMITTEE**

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

**TRANSFER AGENT AND REGISTRAR**

COMPUTERSHARE, N.A.

**AUDITORS**

PLANTE & MORAN, PLLC

**OFFICERS**

T. E. MARK  
President and Chief Executive Officer

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

**BUSINESS UNIT EXECUTIVES**

D. A. CHURCH  
President, The Elco Corporation and  
General Manager, Chemicals Division  
[www.elcocorp.com](http://www.elcocorp.com) and [www.detrexchemicals.com](http://www.detrexchemicals.com)

E. E. WISMER  
Chairman and Chief Executive Officer, Harvel Plastics, Inc.  
[www.harvel.com](http://www.harvel.com)

P. M. FOOSE  
President and General Manager, Harvel Plastics, Inc.  
[www.harvel.com](http://www.harvel.com)

**A COPY OF THE COMPANY'S ANNUAL REPORT FOR THE YEAR 2010 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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