Detrex Corporation and Subsidiary

Consolidated Financial Report
2016 Annual Report

Contents

Highlights (1)

	2016	2015
Operations:		
Net sales from continuing operations	$37,523,883	$38,885,653
Environmental provision	250,700	300,000
Net income	498,474	2,302,063
Earnings before Interest, Taxes and Depreciation (EBITDA)	1,936,727	4,400,974
Per Diluted Common Share:		
Earnings per share:		
Net earnings per share	0.29	1.33
Financial Position and Other Data:		
Total assets	22,524,887	22,327,730
Total bank debt	3,552,500	3,117,500
Total liabilities	11,461,007	11,533,277
Capital Expenditures	896,422	1,066,869

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

DETREX COMPANY PROFILE

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation through its subsidiary (the Elco Corporation) manufactures chemical products predominantly for use in the industrial manufacturing markets. The Elco Corporation is a manufacturer of high performance specialty chemicals serving three distinct business areas, namely additives for industrial petroleum products, high purity hydrochloric acid for the semiconductor industry, and specialty chemicals. Elco's petroleum additives are used for enhancing the properties of hydraulic oils, metalworking fluids, gear oils, greases, and fuels. The Ultramax® hydrochloric acid product line meets the most demanding semiconductor specifications, and Detrex hydrochloric acid is used in various applications such as pharmaceutical manufacturing. Elco's products are manufactured in Cleveland, Ohio and Ashtabula, Ohio and sold domestically through a direct sales force and globally through agents and distributors. Websites: www.elcocorp.com and www.detrexchemicals.com

TO OUR SHAREHOLDERS:

The operational performance of Elco continued to improve in 2016, and steps were taken during the year to improve Detrex's overall outlook by reducing future corporate costs and liabilities. Elco's pre-tax income increased slightly to $5.1 million in 2016 compared to the prior year, while the Detrex consolidated pre-tax income declined to $0.4 million from $3.0 million in 2015 due to the impact of non-operational holding company charges. The two corporate charges which accounted for the bulk of this decline were restructuring of the holding company overhead and non-cash pension expense related to a partial buy-out of pension liabilities. Elco generated growth in a number of areas to compensate for weakness in the US domestic market and achieved increased profitability on a slight decline in overall sales. The outlook for 2017 is positive as domestic markets appear to be rebounding, and I am pleased to report that work done at Elco during the past few years is beginning to yield results.

In 2016, Detrex generated net income of $0.5 million, or $0.29 per fully diluted share, compared to 2015 net income of $2.3 million, or $1.33 per fully diluted share. The large difference in income is primarily due to 2016 pre-tax charges of $2.5 million for restructuring costs and pension expense. Restructuring of holding company overhead resulted in $1.4 million in severance costs for the corporate staff and $0.1 million in relocation and other personnel costs. This restructuring will result in approximately $0.8 million in ongoing annual savings. Pension expense increased by $1.0 million year over year primarily due to a $0.8 million non-cash settlement loss from a buy out of certain pension liabilities. In 2016 net income includes a $0.25 million pre-tax charge to increase the environmental reserve to $1.8 million, a pre-tax environmental charge of $0.3 million was included in 2015 results.

Elco's sales in 2016 were $37.5 million which is a slight decline from sales of $38.9 million in 2015. Modest headwinds continued in the US domestic market while export sales helped to offset most of this decline, increasing from 25% in 2015 to 32% of total sales in 2016. Most of the export growth was in metalworking and grease applications where the Company has focused most of its product development. Product lines which show particular promise are the Company's light color low odor sulfurized additives, chlorinated paraffin replacements, and additive packages for grease. A number of product approvals have been obtained with domestic customers, and revenue growth will depend on improving market conditions to drive utilization of these products.

Elco's 2016 operating income of $5.1 million was slightly ahead of 2015 on lower sales as the result of increased gross margins. Gross margin, expressed as a percent of sales, was 32.5% in 2016 compared to 30.4% in 2015. Favorable product mix and slightly lower manufacturing expenses were the primary contributors. Overhead expenses increased marginally as we continue to make investments in sales, R&D and personnel.

The Company’s environmental liability activities during the year were related to the sites that were retained after the 2013 liability transfer transaction. An additional $0.25 million pre-tax environmental provision was made for future costs as reserves were updated with the most recent information. The year-end environmental reserve was $1.8 million, and $0.3 million is expected to be spent in 2017.

The Company's frozen defined benefit plans improved in 2016 with a $2.1 million underfunded balance at the end of the year compared to a $3.7 million underfunded balance at the end of 2015. Contributing to this improvement was an investment gain of $2.1 million on the pension portfolio in 2016, while discount rates were held constant at 4.50% for both years. The pension plan bought out the pension liabilities for a limited group of vested former employees for $1.5 million which resulted in the recognition of a non-cash settlement loss of $0.8 million. The Company does not expect to make material pension contributions during 2017.

The year end bank loan balance, net of cash on hand, was $1.1 million versus a $1.6 net loan balance at the end of 2015. Significant spending during 2016 included capital expenditures of $0.9 million, severance payments of $0.6 million, environmental spending of $0.2 million, and shareholder dividend payments of $1.7 million.

In 2016, we took action to improve the future profitability of Detrex by reducing the holding company overheads while strengthening the foundation for Elco’s growth and earnings. We are positive about our potential going forward as we are positioned for improved performance as these investments yield results. The Board is in the process of evaluating strategic opportunities to generate shareholder value and will keep you informed of our progress.

Thomas Mark
President, CEO and Chairman

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

Independent Auditor's Report

To the Board of Directors
Detrex Corporation and Subsidiary

We have audited the accompanying consolidated financial statements of Detrex Corporation and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Detrex Corporation and Subsidiary as of December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 9, 2017

Consolidated Balance Sheet

December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 2,405,274	$ 1,531,267
Accounts receivable - Net of allowance for uncollectible accounts of $30,000 in 2016 and 2015	4,367,576	4,219,224
Inventories	5,485,134	5,153,697
Income tax receivable	-	1,256,432
Prepaid expenses and other current assets:		
Prepaid expenses	225,071	257,476
Other assets	208,159	193,060
Total current assets	12,691,214	12,611,156
Property and Equipment		
Land	51,509	51,509
Buildings	9,612,482	9,494,492
Machinery and equipment	19,615,358	19,508,683
Construction in progress	313,054	146,777
Total property and equipment	29,592,403	29,201,461
Less accumulated depreciation	20,905,643	20,057,099
Net property and equipment	8,686,760	9,144,362
Other Assets		
Deferred income taxes	1,081,000	289,000
Other noncurrent assets	65,913	283,212
Total assets	**$ 22,524,887**	**$ 22,327,730**

Consolidated Balance Sheet (Continued)

December 31, 2016 and 2015

	2016	2015
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 1,291,329	$ 1,677,045
Revolving credit facility	1,665,000	-
Current portion of long-term debt	1,230,000	1,230,000
Current portion of environmental reserve	259,000	255,000
Accrued and other current liabilities:		
Accrued compensation	615,292	355,316
Federal income tax payable	360,127	-
Other accruals	1,733,420	903,575
Total current liabilities	7,154,168	4,420,936
Long-term Debt - Net of current portion	657,500	1,887,500
Other Long-term Liabilities		
Pension obligation	2,143,147	3,723,231
Environmental reserve	1,506,192	1,501,610
Total other long-term liabilities	3,649,339	5,224,841
Total liabilities	11,461,007	11,533,277
Stockholders' Equity		
Common capital stock, $2 par value, authorized 4,000,000 shares, outstanding 1,698,339 shares in 2016 and 1,675,939 shares in 2015	3,396,678	3,351,878
Additional paid-in capital	654,337	881,730
Retained earnings	16,850,168	18,049,933
Accumulated other comprehensive loss	(9,837,303)	(11,489,088)
Total stockholders' equity	11,063,880	10,794,453
Total liabilities and stockholders' equity	**$ 22,524,887**	**$ 22,327,730**

Detrex Corporation and Subsidiary

Consolidated Statement of Operations

Years Ended December 31, 2016 and 2015

	2016	2015
Net Sales	$ 37,523,883	$ 38,885,653
Cost of Sales - Exclusive of depreciation	25,336,106	27,057,770
Selling, General, and Administrative Expenses	9,985,377	7,113,978
Provision for Depreciation and Amortization	1,333,296	1,310,840
Provision for Corporate Environmental Reserve	250,700	300,000
Loss from Asset Disposals	15,728	8,267
Interest Expense	213,023	96,071
Other (Income) Expense - Net	(755)	4,664
Income - Before income taxes	390,408	2,994,063
Income Tax (Recovery) Expense	(108,066)	692,000
Consolidated Net Income	**$ 498,474**	**$ 2,302,063**
Basic Earnings Per Common Share		
From continuing operations	$ 0.29	$ 1.37
Net earnings per share	**$ 0.29**	**$ 1.37**
Fully Diluted Earnings Per Common Share		
From continuing operations	$ 0.29	$ 1.33
Net earnings per share	**$ 0.29**	**$ 1.33**
Number of shares outstanding - Basic	1,698,339	1,675,939
Number of shares outstanding - Fully diluted	1,704,258	1,725,515

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2016 and 2015

	2016	2015
Consolidated Net Income	$ 498,474	$ 2,302,063
Other Comprehensive Income (Loss) - Net of tax		
Defined benefit pension plans:		
Net gain (loss) - Net of tax of ($328,137) in 2016 and $320,100 in 2015	609,397	(594,471)
Reclassification of net periodic pension expense - Net of tax of ($561,285) in 2016 and ($257,906) in 2015	1,042,388	478,967
Total other comprehensive income (loss)	1,651,785	(115,504)
Comprehensive Income	**$ 2,150,259**	**$ 2,186,559**

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2016 and 2015

	Common Capital Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2015	$ 3,351,878	$ 881,730	$ 17,423,809	$ (11,373,584)	$ 10,283,833
Comprehensive income:					
Net income	-	-	2,302,063	-	2,302,063
Other comprehensive loss	-	-	-	(115,504)	(115,504)
Dividends declared	-	-	(1,675,939)	-	(1,675,939)
Balance - December 31, 2015	3,351,878	881,730	18,049,933	(11,489,088)	10,794,453
Comprehensive income:					
Net income	-	-	498,474	-	498,474
Other comprehensive income	-	-	-	1,651,785	1,651,785
Stock option redemption	-	(620,700)	-	-	(620,700)
Stock option exercise	44,800	101,400	-	-	146,200
Excess tax benefit of stock compensation expense	-	291,907	-	-	291,907
Dividends declared	-	-	(1,698,239)	-	(1,698,239)
Balance - December 31, 2016	**$ 3,396,678**	**$ 654,337**	**$ 16,850,168**	**$ (9,837,303)**	**$ 11,063,880**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Consolidated net income	$ 498,474	$ 2,302,063
Adjustments to reconcile consolidated net income to net cash and cash equivalents from operating activities:		
Depreciation and amortization	1,333,296	1,310,840
Loss on disposal of property and equipment	15,728	8,267
Provision for uncollectible receivables	2,090	12,471
Environmental reserve provision	200,000	300,000
Deferred income taxes	(1,389,515)	1,289,432
Pension expense (benefit)	967,351	(95,553)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accounts receivable	(150,442)	465,391
Inventory	(331,437)	291,440
Income taxes receivable	1,256,432	(955,432)
Prepaid expenses and other assets	234,605	129,504
Accounts payable	(385,716)	(80,797)
Environmental reserve	(191,418)	(524,062)
Pension obligations	(6,228)	(25,228)
Accrued and other liabilities	1,158,041	(702,592)
Net cash and cash equivalents provided by operating activities	3,211,261	3,725,744
Cash Flows from Investing Activities		
Purchase of property and equipment	(896,422)	(1,066,869)
Proceeds from disposition of property and equipment	5,000	-
Net cash and cash equivalents used in investing activities	(891,422)	(1,066,869)
Cash Flows from Financing Activities		
Proceeds from revolving credit facilities	1,665,000	-
Payments on long-term debt	(1,230,000)	(1,230,000)
Dividends paid	(1,698,239)	(1,675,939)
Stock option redemption	(620,700)	-
Stock option exercise	146,200	-
Excess tax benefit on option exercise	291,907	-
Net cash and cash equivalents used in financing activities	(1,445,832)	(2,905,939)
Net Increase (Decrease) in Cash and Cash Equivalents	874,007	(247,064)
Cash and Cash Equivalents - Beginning of year	1,531,267	1,778,331
Cash and Cash Equivalents - End of year	**$ 2,405,274**	**$ 1,531,267**
Supplemental Cash Flow Information - Cash paid (collected) during the year for		
Interest	$ 81,865	$ 101,043
Income taxes	(348,000)	847,802

See notes to consolidated financial statements.

Note 1 - Nature of Business

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

The Elco business operates in highly competitive markets which are mainly national in scope, although approximately 32 percent of the Company’s total net revenue in 2016 and 25 percent in 2015 was generated outside the United States. For all manufactured products there are numerous competitors, with only a small number of companies being dominant. The Company operates in niche markets and its principal methods of competition in various markets include service, price, and quality. Elco sells primarily to petrochemical and industrial manufacturing companies.

Sales to Elco's five largest customers totaled approximately 31 percent of the Company's consolidated revenue in 2016 and 34 percent in 2015; the loss of one or more of these significant customers could have a material adverse impact on operating results. Accounts receivable from those customers were approximately $1.08 million and $1.27 million at December 31, 2016 and 2015, respectively.

Note 2 - Significant Accounting Policies

Principles of Consolidation

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

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

Cash Equivalents

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

Investments

The Company funds a nonqualified deferred compensation obligation with a money market fund that is carried at fair value as a current asset (in prepaid expenses and other assets). The fair value of the investments used to fund the deferred compensation obligation amounted to $208,000 and $386,000 at December 31, 2016 and 2015, respectively. The Company recorded a gain before income taxes on the investments of $1,000 in 2016 and a loss before income taxes of $7,000 in 2015. The Company made distributions of $193,000 during 2016. See Note 7 for a description of the fair value of the investments.

Accounts Receivable

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

Inventories and Revenue Recognition

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

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

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

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

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

Operating Leases

Rent expense charged to operations applicable to operating leases, primarily for facility and equipment rental, approximated $134,000 for 2016 and $145,000 for 2015.

Research and Development

Research and development costs are charged to operations as incurred and approximated $687,000 and $750,000 in 2016 and 2015, respectively.

Earnings (Loss) per Common Share

The calculation of basic earnings per common share is based upon the average number of common shares outstanding during the year. Shares subject to in-the-money stock options are the only items impacting diluted earnings per share. At December 31, 2016 and 2015, all outstanding options were vested and were in-the-money; the potential dilution was 5,919 shares in 2016 and 49,576 shares in 2015 and resulted in no dilution and four cent per share dilution of earnings per share for net income attributable to Detrex Corporation common stockholders in 2016 and 2015, respectively.

Other Comprehensive Income

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

Income Taxes

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

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

The Company classifies interest and penalties associated with tax liabilities as interest expense and operating expenses, respectively, in the accompanying consolidated financial statements.

Note 2 - Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximated fair value due to their short maturities. The carrying values of investments are based on quoted market values. The carrying value for debt under the credit agreement approximated fair value due to interest rates which reflect market rates. See Note 7 for further discussion of fair value measurements.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Also see Note 10 concerning environmental matters.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 9, 2017, which is the date the consolidated financial statements were available to be issued.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use. The standard is not expected to have a significant impact on the Company's revenue recognition.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory*, which applies to all inventory except inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is covered by the new guidance and should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments will be applied prospectively for fiscal years beginning after December 15, 2016. The standard is not expected to have a significant impact on the Company's valuation of inventory.

Note 3 - Change in Accounting Principle

As of January 1, 2016, the Company adopted new guidance related to the presentation of deferred taxes in its consolidated balance sheet. Under the new guidance, all deferred tax assets, liabilities, and related valuation allowances are reported as noncurrent. Previously, deferred tax balances were classified as current or noncurrent based on the classification of the underlying asset or liability to which the temporary difference relates, or, for loss or credit carryforwards, based on when the item was expected to reverse. The Company has elected to retrospectively apply the new guidance and deferred tax balances reported in the 2015 balance sheet have been restated, as follows:

Balance Sheet

	2015		
	As Previously Reported	As Adjusted	Effect of Change
Deferred income taxes - Current	$ 205,000	$ -	$ (205,000)
Deferred income taxes - Noncurrent	84,000	289,000	205,000
Total assets	$ 289,000	$ 289,000	$ -

Note 4 - Inventory

Inventory at December 31, 2016 and 2015 consists of the following:

	2016	2015
Raw materials	$ 1,540,891	$ 1,738,569
Finished goods	3,944,243	3,415,128
Total inventory	$ 5,485,134	$ 5,153,697

Note 5 - Revolving Credit Agreement and Long-term Debt

The Company has a revolving credit and long-term financing arrangement with its principal lender, JPMorgan Chase Bank, N.A. (Chase). The agreement provided a $10 million long-term credit facility and a $5 million revolving credit facility to finance short-term financing needs and to fund letters of credit issued by the lender. During 2015, the agreement was amended to extend borrowing on the long-term credit facility through June 30, 2016 and to extend the revolving credit facility through June 30, 2018. There was no borrowing availability on the long-term credit facility at December 31, 2016 as new borrowing availability expired in June 2016. Outstanding letters of credit at December 31, 2016 amounted to $106,000 and expire at various dates in 2017. At December 31, 2016, total outstanding indebtedness amounted to $1,887,500 on the long-term credit facility and $1,665,000 on the revolving credit facility. Payments of $1,230,000 and $657,500 on the long-term credit facility are due in 2017 and 2018, respectively. The credit facility for the revolver charges interest at 0.75 percent below the bank's prime lending rate and the credit facility for the long-term debt charges interest at LIBOR plus 2.25 percent (actual borrowing rate of 3.00 percent for the revolver and 2.875 percent for the long-term debt at December 31, 2016). The weighted average interest rate for all borrowings for the year ended December 31, 2016 was approximately 2.93 percent. Borrowings under the credit agreement are subject to certain covenants covering minimum required levels of tangible net worth, minimum fixed-interest charge, and maximum leverage ratios.

The obligations under the credit facility are collateralized by substantially all Company assets. Interest expense related to the credit facilities totaled $84,000 for 2016 and $96,000 for 2015.

Note 6 - Income Taxes

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

	2016	2015
Current:		
Federal	$ 1,219,449	$ (155,000)
State and local	62,000	(442,000)
Total current	1,281,449	(597,000)
Deferred:		
Federal	(1,365,515)	1,344,000
State and local	(24,000)	(55,000)
Total deferred	(1,389,515)	1,289,000
Total income tax (recovery) expense	$ (108,066)	$ 692,000

Current federal income tax expense of $1,219,449 and deferred federal income tax recovery of $1,365,515 in 2016 primarily resulted from a settlement with the Internal Revenue Service of an examination of the Company's 2013 federal income tax return, completed in late 2016, that resulted in deferring the deduction of certain environmental expenses for tax purposes from 2013 to subsequent tax years. In connection with the settlement, the Company has recognized approximately $129,000 of interest as interest expense in the consolidated statement of operations.

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

Deferred tax assets (liabilities) at December 31, 2016 and 2015 relate to the following temporary differences and carryforwards:

	2016	2015
Deferred tax assets:		
Environmental	$ 1,617,323	$ 592,194
Pension benefits	743,672	1,291,962
Inventory related	33,727	91,500
Other	434,278	232,011
Gross deferred tax assets	2,829,000	2,207,667
Deferred tax liabilities:		
Property and depreciation	(1,664,680)	(1,822,421)
Other	(83,320)	(96,246)
Gross deferred tax liabilities	(1,748,000)	(1,918,667)
Net deferred tax asset	$ 1,081,000	$ 289,000

Note 6 - Income Taxes (Continued)

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

	2016	2015
Income tax expense, computed at 34 percent of pretax income	$ 132,738	$ 1,017,981
State and local income tax expense (recovery) - Net of federal tax effect	25,080	(328,020)
Manufacturing tax benefit	-	(123,173)
Research and development tax credit	(35,000)	(27,399)
Nondeductible expenses and adjustments to prior year estimate - Net	(230,884)	152,611
Total provision for income taxes	$ (108,066)	$ 692,000

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. With few exceptions, the Company is no longer subject to federal income tax examinations before 2014 and state income tax examinations before 2013.

Note 7 - Fair Value Measurements

The following section discusses information about the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015 and the techniques used by the Company to determine those fair values in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Disclosures also apply to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. Topic 820 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

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

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology (Level 1 inputs) applies to the Company's investment accounts, which consist of money market accounts totaling approximately $208,000 at December 31, 2016 and $386,000 at December 31, 2015, classified as follows on the consolidated balance sheet:

	2016	2015
Other assets (current assets)	$ 208,000	$ 193,000
Other assets (noncurrent assets)	-	193,000
Total	$ 208,000	$ 386,000

Note 8 - Pension and Other Postretirement Benefit Plans

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

The Company's funding policy is to contribute amounts sufficient to provide for benefits earned to date and those expected to be payable in the future. The Company's contributions to the plans totaled $6,000 in 2016 and $25,000 in 2015.

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

	Pension Benefits	
	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 31,534,396	$ 34,395,207
Interest cost	1,365,400	1,386,793
Change in mortality assumption	(518,584)	(683,787)
Change in discount assumption	-	(860,397)
Actuarial gain	(287,799)	(619,025)
Benefits paid	(3,492,301)	(2,084,395)
Benefit obligation at end of year	28,601,112	31,534,396
Change in plan assets:		
Fair value of plan assets at beginning of year	27,811,165	30,728,893
Actual return on plan assets	2,132,873	(868,693)
Employer contributions	6,228	25,228
Other	-	10,132
Benefits paid	(3,492,301)	(2,084,395)
Fair value of plan assets at end of year	26,457,965	27,811,165
Funded status at end of year	$ (2,143,147)	$ (3,723,231)

At December 31, 2016, the Company-sponsored pension plans were underfunded in total by $571,736 and the supplemental employee retirement plans (SERPs) were underfunded by $1,571,421. At December 31, 2015, the pension plans were underfunded in total by $2,200,844 and the SERPs were underfunded by $1,522,387.

Amounts recognized in the consolidated balance sheet consist of the following:

	Pension Benefits	
	2016	2015
Noncurrent liabilities	$ (2,143,147)	$ (3,723,231)

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

	Pension Benefits	
	2016	2015
Unrecognized net loss	$ 15,134,313	$ 17,675,520

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

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

	Pension Benefits 2016	Pension Benefits 2015
Projected benefit obligation	$ 28.6	$ 31.5
Accumulated benefit obligation	28.6	31.5
Fair value of plan assets	26.5	27.8

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

	Pension Benefits 2016	Pension Benefits 2015
Net Periodic Pension Cost		
Interest cost	$ 1,365,400	$ 1,386,793
Expected return on plan assets	(2,001,722)	(2,219,219)
Net amortization	798,239	736,873
Settlement loss	805,434	-
Net periodic pension cost (benefit)	967,351	(95,553)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Asset investment (loss) gain	(131,161)	3,087,595
Change in mortality assumption	(518,574)	(683,787)
Change in discount rate assumption	-	(860,397)
Settlement loss	(805,434)	-
Amortization of net loss	(798,239)	(736,873)
Experience loss	(287,799)	(618,708)
Other	-	(10,132)
Total recognized in other comprehensive income	(2,541,207)	177,698
Total recognized in net periodic benefit cost and other comprehensive income	$ (1,573,856)	$ 82,145

One of the Company's pension plans offered a lump-sum payment window whereby certain plan participants with deferred vested benefits could elect to receive a single lump-sum payment in 2016 in lieu of future annuity payments they otherwise would have received under the terms of the plan. The pension plan made lump-sum payments totaling approximately $1,480,000. The Company recognized a loss of $805,434 as part of net periodic pension expense in 2016 related to the settlement of the pension obligations for these participants.

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2016 is $749,000.

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

	Pension Benefits 2016	Pension Benefits 2015
Discount rate	4.50 %	4.50 %
Expected rate of return on plan assets	7.50	7.50

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

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

	Pension Benefits	
	2016	2015
Discount rate	4.50 %	4.25 %
Expected long-term return on plan assets	7.50	7.50

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

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

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

	Target Range	2016	2015
Equity securities	40-70%	61.7%	69.4%
Debt securities	30-50%	37.5%	29.9%
Cash equivalents	0-10%	0.8%	0.7%
Total	100.0%	100.0%	100.0%

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

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Asset Classes				
Cash and cash equivalents	$ -	$ 197,541	$ -	$ 197,541
Mutual funds - Institutional equity (a)	11,929,008	-	-	11,929,008
Mutual funds - Institutional international equity (b)	4,401,971	-	-	4,401,971
Mutual funds - institutional fixed income (c)	9,929,445	-	-	9,929,445
Total	$ 26,260,424	$ 197,541	$ -	$ 26,457,965

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

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

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

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

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

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

Years Ending	Pension Benefits
2017	$ 2,021,455
2018	2,180,811
2019	2,190,167
2020	2,155,518
2021	2,123,683
2022-2026	10,137,836
Total	$ 20,809,470

The pension investment portfolios realized a net gain of 8 percent in 2016 and a net loss of 3 percent in 2015. In 2016, the Company kept the discount rate at 4.50 percent. The Company increased the discount rate by .25 percent from 4.25 percent to 4.50 percent in 2015. The pension funding changes in 2016 and 2015 include the investment results and contributions made, coupled with the changes in the plans' discount rates in 2015, and mortality assumptions in 2016 and 2015. During 2016 and 2015, the Company modified the actuarial mortality assumptions by adjusting mortality tables promulgated by the Society of Actuaries. The 2016 actuarial mortality assumption change decreased the Company’s projected benefit obligation (and decreased the plans' net underfunding) at December 31, 2016 by $519,000. The 2015 change in discount rate and mortality assumption decreased the plans' net underfunding by $860,000 and $684,000, respectively.

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

The Company estimates, based on preliminary estimates from its actuary, 2017 consolidated pension expense from continuing operations of $149,000 compared to a $974,000 pension expense in 2016. The Company is not required to make pension contributions during 2017. In future years, assuming a constant discount rate, if actual rates of return on the pension portfolio exceed the expected 7.5 percent rate of return, contribution levels and expense could decline; if actual investment returns are less than expected, required contributions and expense could increase. Assuming a constant rate of return, if the discount rate rises, future contributions and expense would decline; if the discount rate declines, contributions and expense would rise.

Note 9 - Defined Contribution Retirement Plan

The Company sponsors a 401(k) defined contribution plan covering its salaried employees. Employees can contribute up to 100 percent of their salaries. The Company is committed to contribute 3 percent of eligible participant wages into the 401(k) plan under its Safe Harbor Employer Contribution Program. Total contributions approximated $176,000 in 2016 and $175,000 in 2015.

Note 10 - Contingencies and Environmental Matters

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

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

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

During 2014 and 2015, the Company, with input from the EPA, drilled and installed a significant number of additional extraction wells on the Ashtabula site to monitor the site and extract hazardous materials. The Company incurred drilling and operational costs of $204,000 in 2015. In addition, the Company paid EPA oversight costs covering a two-year period (through October 2015) of $175,000. Based on input from the Company’s management and independent environmental consultants, the Company reassessed the construction costs of future extraction wells, and monitoring of contaminated material extracted by the wells and disposal costs. As a result, the Company recorded a fourth quarter 2015 environmental provision of $300,000.

Note 10 - Contingencies and Environmental Matters (Continued)

During 2016, the Company drilled additional extraction wells on the Ashtabula site and incurred drilling and operational costs of $118,000. In addition, the Company paid EPA oversight costs of $19,000 (which were significantly lower than previous years). Based on input from the Company's independent environmental consultants and management, the costs of monitoring contaminated material extracted by the wells and disposal costs were reassessed. As a result, the Company recorded an environmental provision of $100,000 in the fourth quarter. Additionally, the Company transferred $165,000 of environmental site cash refunds received during 2016. The result was an increase in the Ashtabula site reserve to $743,000 at December 31, 2016, which the Company believes is appropriate given the known facts on the site.

The remediation of the Fields Brook in Ashtabula, Ohio was completed by the Superfund group, Fields Brook Action Group (FBAG) in 2002. Subsequently, additional contamination was discovered and additional clean-up efforts have been made. The Company's share for the additional clean-up costs was $31,000 in 2015 and $71,000 in 2016. The Company believes that its December 31, 2016 environmental reserve of $215,000 for this site is adequate to provide for its future share of future sampling and maintenance costs.

The Company is liable for two southeastern Michigan Superfund sites that the Superfund groups, of which the Company is a member, had bought out their environmental obligations in a consent decree with Chrysler Corporation and US EPA many years ago. As a result of the Chrysler bankruptcy several years ago, the two sites were returned to the Superfund groups. The Superfund groups have embarked on in-depth studies to determine how to proceed with remediation of the sites. While the evaluation and development of an action plan on the sites has not been completed, the Company's share of the spending for 2016 and 2015 was $157,000 and $75,000, respectively. In 2016, the Company received a refund of bankruptcy settlement payment of $203,000 from a previous participant in one of the sites. The settlement does not reduce current or future spending on the sites and the refund proceeds were allocated to other Company environmental reserve sites. The remaining reserve on the two sites at December 31, 2016 totaled $660,000, which the Company believes to be appropriate.

On one of the EPA sites that the Company has an obligation of approximately 1 percent, hazardous material was discovered during 2016. A preliminary study is being conducted by the site's Superfund group in which substantial future costs for clean-up and remediation are expected. Based on available information, the Company has recorded an $80,000 environmental provision in the fourth quarter 2016 for its share of the site clean-up and remediation.

In 2016, the Company also recorded a $20,000 environmental provision for two other sites. Additionally, in the fourth quarter of 2016, the Company wrote off a $51,000 receivable from the trustee of a cleanup property, Ashtabula River, that it determined was not collectible. This writeoff was recorded in the consolidated statement of operations in the provision for corporate environmental reserve.

A summary of the environmental activity for 2016 and 2015 is as follows:

	2016	2015
Environmental reserve - Beginning of year	$ 1,756,610	$ 1,980,672
Current year environmental provision	200,000	300,000
Less current year environmental spending - Net of cash refund	(191,418)	(524,062)
Environmental reserve - End of year	1,765,192	1,756,610
Current portion	(259,000)	(255,000)
Noncurrent portion	$ 1,506,192	$ 1,501,610

Note 10 - Contingencies and Environmental Matters (Continued)

The Company will spend cash in future years that will be charged against the Company's environmental reserve liability as actual environmental investigation and remediation proceeds. The Company believes, based on current conditions, that its overall reserve at December 31, 2016 is sufficient to address anticipated remediation requirements for known contaminated sites. However, should the scope of remediation requirements change significantly from those currently projected, or if unforeseeable and unanticipated conditions are discovered during the remediation process, the Company may be required to record additional charges to its environmental reserves.

In addition to the above, there are other claims, including lawsuits pending against the Company and its subsidiary. The Company's liability with respect to remediation costs for various sites, and the liability for other claims and lawsuits against the Company, was based on available data. The Company has established its reserves in accordance with U.S. generally accepted accounting principles. In the event that any additional accruals should be required in the future with respect to such matters, the additional accruals could have a material impact on the results of operations to be reported for a specific accounting period and could have a material impact on the Company's consolidated financial position.

Note 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, 2016 and 2015.

Note 12 - Stock Purchase Rights

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

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

Note 13 - Stock Options

The Company sponsors a stock option plan available for the Company's executive employees and directors. During 2016, 55,000 options were exercised, with an exercise price of $6.50. There were no options granted or forfeited in 2016. At December 31, 2016, there were no additional options available for future grants.

At December 31, 2016, 16,000 options were outstanding. The options had a weighted average remaining life of 5.19 years, were exercisable, and are in the money. The per-share exercise prices range from $14.55 to $16.00.

The following table summarizes information about stock options outstanding at December 31, 2016:

	Shares Under Option	Weighted Average Remaining Life	Exercise Price
	4,000	5.19	$ 14.55
	12,000	5.19	16.00
Total	16,000	5.19	$ 15.64

The aggregate intrinsic value of options outstanding, all of which were exercisable, was approximately $145,800 and $1,184,000 at December 31, 2016 and 2015, respectively.

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

The accompanying Management's Discussion and Analysis will include the actual 2016 and 2015 operating results for Detrex Corporation and its remaining subsidiary, The Elco Corporation.

During 2016, the Company reported a pre-tax income of $0.4 million, compared to a pre-tax income of $3.0 million in 2015. The major components of this $2.6 million decline are relocation and personnel costs for the corporate office of $1.5 million and an increase in pension expense of $1.1 million. The 2016 and 2015 pre-tax operating results included environmental charges of $0.25 million and $.3 million, respectively. Company 2016 revenues of $37.5 million represent a decrease of $1.4 million (3.5 percent) compared to 2015. Consolidated 2016 selling, general and administrative (SGA) expenses increased by $2.8 million compared to 2015, of which $2.6 million was for corporate office and pension expense.

The Detrex Corporation had 2016 net income of $0.5 million compared with 2015 net income of $2.3 million. The 2015 net income includes a state income tax recovery of $0.3 million net of federal income tax due to a settlement of a state audit.

The lower 2016 revenues of $37.5 million were due to lower sales of low margin business, and overall sluggish domestic industrial lubricant activity. Gross margins, expressed as a percentage of sales, were 32.5 percent in 2016 compared to 30.4 percent in 2015. The higher 2016 margin percentage resulted principally from product mix and slightly lower manufacturing costs. Elco's 2016 SGA expenses increased by approximately $0.2 million compared to 2015. Elco's overall operating earnings increased to $5.1 million in 2016 from $5.0 million in 2015.

Detrex's corporate results for 2016 reflected SGA expenses of $2.8 million excluding severance, which was an increase of $1.2 million compared to 2015. The 2016 SGA expense includes $1.0 million of pension expense, which was mainly due to a $0.8 million expense for the recognition of a non-cash settlement loss. This compares to 2015 pension income of $.1 million.

The 2016 provision for depreciation and amortization was about the same as the 2015 provision. Depreciation and amortization provisions for 2017 are not expected to change significantly from 2016.

The Company's 2016 interest expense of $215,000 includes $130,000 for interest paid to the IRS resulting from the settlement of an audit. Interest for revolving credit and the term loan facilities was $85,000, which was a decrease from $97,000 for interest in 2015.

The Company's income tax provisions are based on the pre-tax income, adjustments of estimates, and state and local tax expense. The Company's combined federal, state, and local 2016 income tax recovery from continuing operations totaled $108,000. This compares to a $692,000 expense for 2015, which included a $300,000 state income tax recovery net of federal income tax described above.

Comparative Operating Data

Comparative data includes continuing operations only.

($ in table in thousands)

	2016		2015	
	$	%	$	%
Elco Corporation				
Net sales	37,524	100.0	38,886	100.0
Gross margin	12,188	32.5	11,828	30.4
Selling, general, and administrative expenses	5,754	15.3	5,544	14.3
Depreciation and amortization	1,332	3.5	1,307	3.4
Elco pre-tax income	5,102	13.6	4,977	12.7
Detrex Corporation				
SG&A expense excluding severance expense	2,782	7.4	1,570	4.0
Severance provision	1,449	3.9	-	-
Depreciation and amortization	1	-	4	-
Environmental provision	251	0.7	300	0.8
Total consolidated pre-tax income	390	1.0	2,994	7.7

During 2016, the Company continued to effectively manage its environmental obligations. The Company is obligated to manage seven remaining sites, all of which are subject to U.S. Environmental Protection Agency (EPA) regulatory oversight. Spending, net of recoveries of $0.2 million, on these seven sites totaled $0.2 million in 2016 compared to $0.5 million in 2015. One of the Ohio sites has been in the process of remediation. During 2016, the Company, working with the EPA, continued to construct wells on this site. The wells determine the level of contamination and provide a means for remediation. Based on updated forecasted costs to remediate and clean the site the Company recorded a $100,000 environmental provision in the fourth quarter 2016. The Company recorded a $300,000 environmental provision for this same site in the fourth quarter 2015. On one of the EPA sites that the Company has an obligation of approximately 1 percent, hazardous material was discovered during 2016. A preliminary study is being conducted by the site's Superfund group in which substantial future costs for clean-up and remediation are expected. Based on available information, the Company has recorded a $80,000 environmental provision in the fourth quarter 2016 for its share of the site clean-up and remediation. In 2016, $20,000 was recorded to environmental provisions for two other sites. Additionally, in the fourth quarter of 2016 the Company wrote off and expensed a $51,000 receivable from the trustee of a cleanup property, Ashtabula River, that appeared unlikely to be collected.

In 2016 The Company relocated its corporate headquarters from Southfield, Michigan to Elco's offices in Cleveland, Ohio. This is anticipated to improve the Company's long term performance with cost savings from the elimination of positions and improved efficiencies. Personnel severance costs associated with this move were $1.4 million in 2016, in addition, other personnel and relocation charges of $0.1 million were incurred.

Company-sponsored defined benefit retirement plans that were frozen several years ago, are materially impacted by changes in actuarial assumptions. In 2016, the Company kept the discount rate at 4.50 percent. The Company increased the discount rate by 0.25 percent from 4.25 percent to 4.5 percent in 2015. The pension funding changes in 2016 and 2015 include the investment results and contributions made, coupled with the changes in the plans' discount rates, and mortality assumptions in 2016 and 2015. During 2016 the Company modified the actuarial mortality assumptions based on applying updated mortality tables promulgated by the Society of Actuaries. The 2016 actuarial mortality assumption change decreased the Company's projected benefit obligation and decreased the plan's 2016 net underfunding by $519,000. The 2015 change in discount rate and mortality assumption decreased the plan's net underfunding by $860,000 and $684,000 respectively.

Liquidity, Financial Condition, and Capital Resources

The Company has a revolving credit and long-term financing agreement with principal lender, JPMorgan Chase Bank, N.A (Chase). During 2015, the Company amended its agreement with JPMorgan Chase which provides up to a $5 million revolving credit line and a term loan credit line. The term loan has a December 2016 balance of $1.9 million with no further availability. The remaining borrowing capacity under the revolving credit line totaled $3.2 million at December 2016. The credit facility provides liquidity and enables the Company to fund its working capital requirements, capital spending, and other obligations as they come due. During 2016, significant spending included $0.9 million for capital, $0.4 million for environmental, $0.6 million for severance payments and shareholder dividend payments of $1.7 million. Significant spending during 2015 included capital expenditures of $1.1 million, environmental spending of $0.5 million, and shareholder dividend payments of $1.7 million.

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

Outlook

There is cautious optimism regarding the economic opportunities in the markets that Elco serves. Elco posted another profitable year in 2016 which is expected to continue. Although Elco's 2016 sales were almost $1.4 million lower than 2015 due to an overall sluggish domestic industrial lubricant market, margins remained strong and 2016 pre-tax income totaled $0.4 million. This $0.4 million is net of $1.4 million of severance expense and $0.8 million of settlement loss on pension distributions. Elco's strategies to achieve higher future profits include expansion in international markets, commercialization of new products, and continued growth in high value, higher margin products while continuing to control expenses. The cash on hand and the existing credit agreement should provide sufficient liquidity and capital to operate and expand the business.

Risks and Uncertainties

The Company's 2013 environmental liability transfer transaction has significantly reduced the Company's ongoing and future environmental spending risk. Under the federal and state environmental laws, the Company is contingently liable for environmental obligations if the Acquirer fails to perform on their assumed cleanup obligations. The 20 sites that were transferred in connection with the transaction have left the Company with only seven remaining environmental sites, all of which are under U.S. Environmental Protection Agency (EPA) oversight and all but one site involves other potentially responsible parties (PRPs). The Company cost estimates are reviewed periodically throughout the year to assess changed conditions; adjustments to recorded amounts are made if the changed conditions have a significant effect on cost estimates. During 2014, the Company recorded a $1 million provision to provide further clean-up activities. During 2015 and 2016, the Company continued its efforts to remediate its Company owned site in Ashtabula, Ohio. The Company continued to work with the EPA and has completed the drilling of numerous collection wells to determine the level of contaminated materials that are still on site. The construction and oversight costs to manage the site have been re-evaluated, which resulted in an additional $300,000 environmental provision charged against earnings in the fourth quarter of 2015 and $100,000 in the fourth quarter 2016. While management cannot accurately forecast the future impact on its environmental reserve of new environmental laws, regulations, advances in remediation technologies, changes in remediation approaches, additional sites requiring remediation, or the discovery of unanticipated conditions, management believes that the environmental reserve at December 31, 2016 is appropriate. However, it is not possible to determine whether actual losses will occur or accurately estimate the amount or range of any potential additional loss. Spending requirements for 2017 are projected to approximate $0.3 million. Estimates of the amount and timing of future costs are unpredictable, in part because estimates change as new facts are uncovered and environmental regulatory requirements and technologies continue to change. It is possible that future costs could exceed the environmental reserve. For further discussion of these matters, see Note 10 to the 2016 consolidated financial statements.

The Company's pension plans cover current and former employees of Detrex Corporation and Elco. The Company recognized pension costs of $967,000 in 2016 and pension cost recovery from continuing operations of $96,000 in 2015. In 2015, the pension plans moved to a $3.7 underfunded position due principally to actuarial assumption changes in the discount rate and mortality assumptions. The plan's underfunding status at December 31, 2016 decreased to $2.1 million due to mortality assumption changes and favorable actual investment results. The 2016 pension investment results reported a gain of $2.1 million, compared to a 2015 pension investment loss of $0.9

million. The annual pension expense is expected to be $149,000 in 2017, due principally to the expected amortization of deferred actuarial investment losses. Company contributions to the pensions for 2016 and 2015 were immaterial. The Company's 2017 pension contributions are also expected to be immaterial. Depending on actual rates of return on the pension investment portfolio, and changes in discount rates, mortality assumptions and other factors, the recorded expense, pension obligations, and funding requirements could change significantly (see Note 8 to the consolidated financial statements and "Liquidity, Financial Condition, and Capital Resources").

The Company's operating strategy in recent years has been to build shareholder value by strategically allocating capital to Elco's profitable businesses. Detrex's bank credit agreement provides borrowing capacity to enable the Company to invest in economically beneficial opportunities and meet its ongoing business obligations. The Company must continue to operate profitably to fund its current operating needs, fund capital expenditures, pension, environmental obligations, and dividend payments. However, the Company's profitability and available bank credit facility significantly mitigates the financial risk and will likely enable the Company to meet its financial obligations and fund strategic objectives.

Application of Critical Accounting Policies

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

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

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

Environmental Reserves

The liability for environmental obligations represents a significant estimate on the Company's consolidated balance sheet, and by its nature is difficult to estimate. Furthermore, any changes the Company makes to the environmental liability can have a large and adverse effect on its operating results. The Company determines its environmental obligation based on evaluations of site conditions, current law, and existing technologies. Inherent uncertainties exist in such evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technology. In addition, estimates of environmental costs may be affected by the willingness of regulatory authorities to conclude that remediation and/or monitoring performed by the Company is adequate. Management meets regularly to review its environmental matters, and makes use of both internal and third-party data to develop a basis for recording environmental related cost estimates in the Company's consolidated financial statements. The recorded liabilities are periodically adjusted as remediation efforts progress or additional technical, legal, or other information becomes available. The Company has $1.8 million accrued for environmental obligations at December 31, 2016, which was unchanged from the $1.8 million accrued for these obligations at December 31, 2015. These are the Company's best estimates of the future costs with respect to known environmental matters. Management believes that the December 31, 2016 accrued environmental reserve of $1.8 million represents an appropriate estimate. While the uncertainty is expected to decline as the projects are completed, it is during the construction and/or remediation of these projects when further contamination or problems may be encountered. Accordingly, it is during these times when further charges may be required. For further discussion, see Note 10 to the consolidated financial statements and the Risks and Uncertainties section of the Management's Discussion and Analysis of Financial Condition.

Pensions

The amounts recognized in the consolidated financial statements related to pensions are determined from actuarial valuations. Inherent in these valuations are principal assumptions, including the expected long-term return on plan assets, discount rates (which are reflective of the long-term investment grade corporate bond rates) used to measure the pension benefit obligations, and mortality rates. These assumptions are updated annually and are disclosed in Note 8 to the consolidated financial statements. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore will affect expense recognized, funding requirements, and obligations recorded in future periods. The plans are funded in accordance with ERISA and IRS regulations; required funding is determined based upon the funded status of the plans. The plans for nonunion and union employees were frozen during 2009 and 2010. During 2016, the pension funding obligation decreased; the net underfunded status at December 31, 2016 was $2.1 million compared to $3.7 million in 2015. In 2016, the Company kept the discount rate at 4.50 percent. In 2015, the Company increased the discount rate by 0.25 percent from 4.25 percent to 4.5 percent. During 2016 and 2015, the Company modified the actuarial mortality assumptions based on applying updated mortality tables promulgated by the Society of Actuaries. The 2016 actuarial mortality assumption change decreased the Company's projected benefit obligation and decreased the plan's 2016 net underfunding by $0.5 million. During 2015, the discount rate change decreased the benefit obligation by $0.8 million and the mortality assumption change decreased the benefit obligation by $0.7 million.

The expected long-term rate of return on assets is developed with input from the Company's actuarial firm and independent investment consultants. The Company's historical pension fund asset performance and comparisons to expected returns of other companies are also considered. The long-term rate of return assumption used for determining net periodic pension expense was 7.5 percent for 2016 and 2015. Actual market investment returns or losses (net of plan expenses) were approximately 8 percent in 2016 and (3) percent in 2015. Assuming a constant discount rate, if actual rates of return on the pension investment portfolio exceed the 2016 expected 7.5 percent rate of return, contribution and expense levels could decline; if actual returns are less than the expected rate of return, required contributions and expense could be higher.

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

The discount rate used for determining future pension plans' obligations is based on rates of high quality long-term corporate bonds. The assumed discount rate was 4.50 percent at December 31, 2016 and December 31, 2015. Assuming a constant rate of return, if the discount rate rises, future contributions and expense would decline; if the discount rate declines, contributions and expense would rise.

The Company adopted mortality table assumptions for the plans that were recently promulgated by the U.S. Society of Actuaries. These updated mortality tables reflect that people are living longer. The new tables significantly increased the actuarially determined pension benefit obligation in the Company sponsored plans when adopted in 2014. The pension benefit obligation was reduced, however, in 2016 and 2015, based on updated tables issued by the Society of Actuaries. It is expected that these tables will be a valid measure of pension participants' mortality for a number of years.

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

SUPPLEMENTARY INFORMATION (Unaudited)
Selected Quarterly Data

	2016 Quarters				2015 Quarters			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
	(Thousands of dollars, except per share amounts)							
Net sales – Continuing operations	$ 9,446	$ 9,762	$ 9,375	$ 8,941	$ 8,272	$ 9,717	$ 9,955	$ 10,942
Gross margin on sales	3,289	3,152	2,968	2,779	2,374	2,949	3,175	3,330
Pre-tax earnings (loss) (1)(2)(4)	(978)	548	466	354	133	840	973	1,048
Net income (3)	(405)	361	308	234	414	514	662	712
Basic earnings per common share attributable to Detrex shareholders:								
Total basic earnings per share	(0.24)	0.21	0.18	0.14	0.25	0.31	0.39	0.42

(1) Includes environmental charge of $251 in the fourth quarter 2016 and $300 in the third quarter 2015.
(2) Includes severance charges of $234, $422, and $793 in the 2nd, 3rd, and 4th quarter 2016 respectively.
(3) Included in the 4th quarter 2015 is a state income tax recovery of approximately $500 related to the settlement of a state tax audit.
(4) Includes $805 expense for settlement loss on pension distribution in the fourth quarter 2016.

BUSINESS

Detrex Corporation was incorporated in Michigan in 1925. Detrex Corporation (the "Company") and its Elco subsidiary manufacture chemical products predominantly for use in industrial manufacturing. The following describes Detrex's subsidiary's product offerings during 2016:

Subsidiary of Detrex Corporation

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

Net sales (in thousands) of the Elco business unit amounted to $37,524 in 2016 and $38,886 in 2015.

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

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

Elco's five largest customers generated approximately 31 percent of the Company's 2016 consolidated revenues from continuing operations. If business from significant customers is lost, the Company's operating results could be adversely impacted. Elco has significant suppliers that supply a significant percentage of raw materials. The majority of these materials can be sourced from other suppliers. Efforts are made to seek to qualify alternative supply sources for limited sourced materials.

The Company expects to continue to incur professional fees and remediation expenses in connection with its remaining environmental compliance efforts. The Company maintains environmental reserves which at December 31, 2016 totaled $1.8 million, of which $0.3 million is estimated to be spent in 2017. A more detailed discussion of environmental matters is included in Note 10 to the 2016 consolidated financial statements.

The Company employed 65 persons as of December 31, 2016.

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

PROPERTIES

The Company's administrative offices are located in owned space at 1000 Belt Line Street, Cleveland, Ohio 44109.

During 2016, Detrex and its subsidiary, Elco conducted manufacturing, research and warehouse operations in two locations, of which both are owned.

Manufacturing properties owned at December 31, 2016 are as follows:

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

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

FORWARD-LOOKING STATEMENTS

This document, including the letter to shareholders and the 2016 Annual Report, contains statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). The words "expect," "plan," "estimate," "anticipate," "predict," "believe," and similar expressions and variations thereof are intended to identify forward-looking statements. Additional oral or written forward-looking statements may be made by or on behalf of the Company from time to time and such statements may be included in documents other than this document. Such forward-looking statements involve a number of known and unknown risks and uncertainties. While these statements represent the Company's current judgment with respect to its business, readers of this document are cautioned that forward-looking statements are not guarantees of future performance and that such risks and uncertainties could cause actual results, performance and achievements, or industry results, to differ materially from those suggested herein. The Company undertakes no obligation to release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Forward-looking statements in this document and elsewhere may include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, and adequacy of resources. All forward-looking statements in this document and elsewhere are intended to be made pursuant to the safe harbor provisions of the 1995 Reform Act. Factors that could cause results to differ materially from those projected in the forward-looking statements include: geopolitical unrest, market conditions, cooperation of lenders, environmental remediation costs, liquidation value of assets, costs to exit leased facilities, cost and availability of environmental liability insurance, marketability of real estate, availability of buyers, execution of orders in backlog, retention of key personnel, and other factors.

SELECTED FINANCIAL DATA

(From continuing operations)

	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share amounts)				
Net sales from continuting operations	$37,524	$38,886	$40,755	$41,038	$43,406
Net income (loss) from continuting operations	498	2,302	1,286	2,600	(7,011)
Net income (loss)	498	2,302	981	2,600	7,708
Basic earnings (loss) per common share:					
From continuting operations	0.29	1.37	0.77	1.55	(4.18)
From discontinued operations	0.00	0.00	(0.18)	0.00	8.78
Net earnings (loss) per share attributable to Detrex Corporation	0.29	1.37	0.59	1.55	4.60
Total assets	22,525	22,328	23,998	30,163	37,291
Net working capital	5,537	8,395	7,270	8,574	12,206
Capital expenditures	896	1,067	686	1,464	1,758
Total bank debt	3,553	3,118	4,348	7,846	106
Pension plan contributions	6	25	6	1,673	6,669
Environmental expenditures	394	524	945	14,274	2,836
Stockholder's equity	11,064	10,795	10,284	14,351	11,133
Stockholder's equity per common share	6.51	6.44	6.14	8.56	6.64
Number of employees	65	65	66	68	65
Percentages to net sales:					
Gross margin	32.5%	30.4%	28.9%	34.3%	34.8%
Net income from continuing operations	1.33%	5.92%	3.15%	6.33%	(16.15%)
Net income from continuting operations as a percent of:					
Average total assets	2.22%	9.94%	4.75%	7.71%	(15.34%)
January 1st Detrex stockholders' equity	4.62%	22.39%	8.96%	23.35%	(75.37%)
Current ratio	1.8	2.9	2.3	2.0	2.4

DIRECTORS

WILLIAM C. KING
Retired Chairman of the Board

THOMAS E. MARK
Chairman, President and Chief Executive Officer

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

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

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

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

AUDIT COMMITTEE

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

TRANSFER AGENT AND REGISTRAR
COMPUTERSHARE, N.A.

AUDITORS
PLANTE & MORAN, PLLC

LEGAL COUNSEL
CLARK HILL PLC

CORPORATE OFFICERS

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

D. A. CHURCH
Executive Vice President

R. A. LUNOE
Vice President and Treasurer

J. P. Hensien
Secretary

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

R. A. LUNOE
Vice President Finance and Administration,
The Elco Corporation

A COPY OF THE COMPANY'S ANNUAL REPORT FOR THE YEAR 2016 WILL BE FURNISHED WITHOUT CHARGE TO SHAREHOLDERS UPON WRITTEN REQUEST. REQUESTS ARE TO BE SENT TO TREASURER, DETREX CORPORATION, 1000 BELT LINE STREET, CLEVELAND, OHIO 44109.

DETREX CORPORATION

GENERAL OFFICES — 1000 BELT LINE STREET, CLEVELAND, OHIO, 44109

Telephone: (216) 749-2605
INTERNET ADDRESS — http://www.detrex.com
SKU – 001CSN285F