IONICS INC
Form 10-Q
August 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2002

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number: 1-7211

IONICS, INCORPORATED
(Exact name of registrant as specified in its charter)

Massachusetts	04-2068530
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

65 Grove Street Watertown, Massachusetts	02472
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (617) 926-2500
Former name, former address and former fiscal year, if changed since last report: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At June 30, 2002 the Company had 17,551,779 shares of Common Stock, par value $1 per share, outstanding.

IONICS, INCORPORATED
FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2002

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

IONICS, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share amounts)

	Three months ended June 30,		
	2002	2001	2

Revenues:			
Equipment Business Group	$38,648	$46,166	$
Ultrapure Water Group	25,187	30,818	
Consumer Water Group	8,676	30,247	
Instrument Business Group	6,810	6,443	
	79,321	113,674	1
Costs and expenses:			
Cost of sales of Equipment Business Group	28,557	35,826	
Cost of sales of Ultrapure Water Group	18,613	24,385	
Cost of sales of Consumer Water Group	4,875	15,525	
Cost of sales of Instrument Business Group	2,584	2,990	
Research and development	1,594	1,609	
Selling, general and administrative	21,080	27,580	
	77,303	107,915	1
Income from operations	2,018	5,759	
Interest income	868	746	
Interest expense	(376)	(1,448)	
Equity income	782	589	
Income before income taxes and minority interest	3,292	5,646	
Provision for income taxes	1,119	1,920	
Income before minority interest	2,173	3,726	
Minority interest in (earnings) losses	(79)	443	
Net income	$ 2,094	$ 4,169	$
Basic earnings per share	$ 0.12	$ 0.24	
Diluted earnings per share	$ 0.12	$ 0.24	
Shares used in basic earnings per share calculations	17,547	17,100	
Shares used in diluted earnings per share calculations	17,707	17,183	

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The accompanying notes are an integral part of these consolidated financial statements.

IONICS, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Amounts in thousands, except share and par value amounts)

	June 30, 2002	Decemb[er] 20[..]
ASSETS		
Current assets:		
Cash and cash equivalents	$ 139,127	$
Short-term investments	-	
Notes receivable, current	4,547	
Accounts receivable, net	111,009	
Receivables from affiliated companies	24,320	
Inventories:		
Raw materials	19,410	
Work in process	9,563	
Finished goods	7,095	
	36,068	
Other current assets	11,549	
Deferred income taxes	15,787	
Total current assets	342,407	
Notes receivable, long-term	24,497	
Investments in affiliated companies	22,757	
Property, plant and equipment:		
Land	6,382	
Buildings	42,176	
Machinery and equipment	261,683	
Other, including furniture, fixtures and vehicles	30,587	
	340,828	
Less accumulated depreciation	(168,240)	
	172,588	
Deferred income taxes, long-term	12,643	
Goodwill	19,215	
Other assets	9,166	
Total assets	$ 603,273	$

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 9,575	
Accounts payable	26,005	
Customer deposits	4,814	
Accrued commissions	1,688	
Accrued expenses	48,188	
Income taxes payable	24,756	
Total current liabilities	115,026	
Long-term debt and notes payable	11,149	
Deferred income taxes	37,810	
Other liabilities	5,555	
Stockholders' equity:		
Common stock, par value $1, authorized shares: 55,000,000; issued: 17,551,779 in 2002 and 17,477,005 in 2001	17,552	
Additional paid-in capital	190,353	
Retained earnings	246,348	
Accumulated other comprehensive loss	(20,520)	
Total stockholders' equity	433,733	
Total liabilities and stockholders' equity	$ 603,273	$

The accompanying notes are an integral part of these consolidated financial statements.

IONICS, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Mon Jun
Operating activities:	2002
Net income	$ 4,031
Adjustments to reconcile net income to net cash (used) provided by operating activities:	
Depreciation and amortization	11,240
Amortization of goodwill	-
Provision for losses on accounts and notes receivable	332
Equity in earnings of affiliates	(1,674)
Changes in assets and liabilities:	
Notes receivable	(1,884)
Accounts receivable	2,656
Inventories	(2,539)

Other current assets	329
Investments in affiliates	1,984
Accounts payable and accrued expenses	(19,563)
Income taxes	(19,574)
Other	(1,838)
Net cash (used) provided by operating activities	(26,500)
Investing activities:	
Additions to property, plant and equipment	(14,113)
Disposals of property, plant and equipment	546
Additional investments in affiliates	-
Acquisitions, net of cash acquired	(635)
Sale of short-term investments	184
Net cash used by investing activities	(14,018)
Financing activities:	
Principal payments on current debt	(53,374)
Proceeds from borrowings of current debt	48,618
Principal payments on long-term debt	(480)
Proceeds from borrowings of long-term debt	1,135
Proceeds from issuance of common stock	60
Proceeds from issuance of stock under stock option plans	1,654
Net cash (used) provided by financing activities	(2,387)
Effect of exchange rate changes on cash	3,749
Net change in cash and cash equivalents	(39,156)
Cash and cash equivalents at beginning of period	178,283
Cash and cash equivalents at end of period	$ 139,127

The accompanying notes are an integral part of these consolidated financial statements.

IONICS, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated quarterly financial statements of Ionics, Incorporated (the "Company") are unaudited; however, in the opinion of the management of the Company, all adjustments have been made that are necessary for a fair statement of the consolidated financial position of the Company, the consolidated results of its operations and the consolidated cash flows for each period presented. The consolidated results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These financial statements should be read in conjunction with the Company's 2001 Annual Report as filed on Form 10-K with the Securities and Exchange Commission. Certain prior year amounts have been reclassified to conform to the current year presentations.

2. Commitments and Contingencies

The Company is involved in the normal course of its business in various litigation matters, some of which are in the pre-trial discovery stages. The Company believes that none of the pending matters will have an outcome material to its financial condition or results of operations.

In the second quarter of 2002, construction was completed on the first four (out of five) phases of the Trinidad desalination facility owned by Desalination Company of Trinidad and Tobago Ltd. (Desalcott), in which the Company has a 40% equity interest, and the facility commenced water deliveries to its customer, the Water and Sewerage Authority of Trinidad and Tobago. The Company has loaned $10 million to the 60% equity owner, Hafeez Karamath Engineering Services Ltd. (HKES), as the source of HKES' equity contribution to Desalcott, in addition to the $10 million contributed by the Company for its 40% equity interest. In 2000, Desalcott entered into a "bridge loan" agreement with a Trinidad bank providing $60 million in construction financing. Effective November 8, 2001, the loan agreement was amended to increase maximum borrowings to $79.9 million. The Company has committed to lend up to $10 million to Desalcott as an additional source of funds for project completion costs once all bridge loan proceeds have been expended. However, the bridge loan of $79.9 million and the $20 million equity provided to Desalcott, together with the additional $10 million dollars to be loaned to Desalcott by the Company, will not provide sufficient funds to pay all of Desalcott's obligations in completing construction and commissioning of the project prior to receipt of long-term financing. Included in these obligations is approximately $22.3 million payable to the Company's Trinidad subsidiary for equipment and services in connection with the construction of the facility. The Company intends to convert $10 million of this amount into a loan to Desalcott to satisfy the Company's loan commitment described above. The Company anticipates that Desalcott will pay its outstanding obligations to the Company's subsidiary partially out of cash flow from the sale of water and from the proceeds of long-term debt financing. However, although Desalcott has received proposals, including a term sheet, for long-term debt financing which it anticipates obtaining by year-end, there is no assurance that such financing will be obtained on terms acceptable to Desalcott.

During 2001, the Company acquired a 25% equity ownership interest in a Kuwaiti project company, Utilities Development Company W.L.L. (UDC), which was awarded a concession agreement by an agency of the Kuwaiti government for the construction, ownership and operation of wastewater reuse facility in Kuwait. At March 31, 2002, the Company had deferred

costs of approximately $1.1 million relating primarily to preliminary project management and initial design work on the project, and had invested $1.5 million in the project company. During the second quarter of 2002, UDC entered into agreements for the long-term financing of the project, and accordingly the Company commenced recognizing revenue in accordance with American Institute of Certified Public Accountants Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Construction-Type Contracts."

On December 31, 2001, the Company completed the sale of its Aqua Cool Pure Bottled Water operations in the United States, United Kingdom and France to affiliates of Perrier-Vittel S.A., a subsidiary of Nestle S.A. (Nestle), for approximately $220 million, of which $10 million is being held in escrow pursuant to the terms of the divestiture agreement. The amount of the purchase price is subject to final adjustment based on the number of customers and working capital levels of the transferred businesses, in each case as determined in accordance with the divestiture agreement. The process for determining the number of customers and working capital levels, as well as any related purchase price adjustments, is under way. In addition, Nestle is seeking payment of certain amounts under the indemnification provisions of the divestiture agreement. While the ultimate amount of purchase price adjustments or indemnification payments, if any, cannot yet be determined with certainty, the Company currently believes that the reserves it has established for purchase price adjustments and the escrowed amount will be adequate in all material respects to cover the resolution of these issues. Accordingly, no additional provision for any liability that might result from any of these matters has been included in the accompanying financial statements for the current year.

3. Earnings per share (EPS) calculations

(Amounts in thousands, except per share
For the three months ended June 30,

	2002			
	Net Income	Shares	Per Share Amount	Net Income
Basic EPS				
Income available to common stockholders	$ 2,094	17,547	$ 0.12	$ 4,169
Effect of dilutive stock options	-	160	-	-

Diluted EPS	$ 2,094	17,707	$ 0.12	$ 4,169

	For the six months ended June 30,			
	2002			
	Net Income	Shares	Per Share Amount	Net Income
Income available to common stockholders	$ 4,031	17,528	$ 0.23	$ 7,164
Effect of dilutive stock options	-	214	-	-
Diluted EPS	$ 4,031	17,742	$ 0.23	$ 7,164

The effect of dilutive stock options excludes those stock options for which the impact would have been antidilutive based on the exercise price of the options. The number of options that were antidilutive for the three-month periods ended June 30, 2002 and 2001 was 1,409,767 and 1,555,834, respectively. The number of options that were antidilutive for the six-month periods ended June 30, 2002 and 2001 was 635,250 and 1,541,234, respectively.

4. Comprehensive Income

The Company has adopted the Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of comprehensive income and its components. The table below sets forth the "comprehensive income" as defined by SFAS No. 130 for the three month and six month periods ended June 30, 2002 and 2001, respectively.

(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	

Net income	$ 2,094	$ 4,169	$ 4,031	
Other comprehensive income, net of tax:				
Translation adjustments	7,056	(494)	4,476	
Comprehensive income	$ 9,150	$ 3,675	$ 8,507	

5. Segment Information

The Company has four reportable "business group" segments corresponding to a "business group" structure. In 2002, the Company instituted a matrix-type organization. As part of the matrix organization, the Company's trailer leasing and non-consumer bleach based chemical supply businesses which were included in the Equipment Business Group in prior periods now are included in the Ultrapure Water Group. Segment information for all periods presented has been restated to reflect this change. Additionally, the Company's Aqua Cool Pure Bottled Water business, which had been reported as part of the operations of the Consumer Water Group, was sold to affiliates of Nestle S.A. on December 31, 2001 and therefore does not appear in 2002 operations.

The following table summarizes the Company's operations by the four business group segments and "Corporate." Corporate includes legal and research and development expenses not allocated to the business groups, certain corporate administrative and insurance costs, foreign exchange gains and losses on corporate assets, as well as the elimination of intersegment transfers.

	For the three months ended June 30, 20				
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	Co
(Amounts in thousands)					
Revenue - unaffiliated customers	$38,648	$ 25,187	$ 8,676	$ 6,810	
Inter-segment transfers	1,658	163	-	635	
Gross profit	10,091	6,574	3,801	4,226	
Equity income (loss)	689	9	265	-	
Income (loss) before interest, tax and minority interest	3,117	657	(1,166)	1,237	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes and minority interest	-	-	-	-	

	For the three months ended June 30, 20				
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	Co
(Amounts in thousands)					
Revenue - unaffiliated customers	$46,166	$ 30,818	$ 30,247	$ 6,443	
Inter-segment transfers	590	788	-	316	
Gross profit	10,340	6,433	14,722	3,453	
Equity income (loss)	468	(4)	144	-	
Income (loss) before interest, tax and minority interest	3,465	(781)	3,679	557	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes and minority interest	-	-	-	-	

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	For the six months ended June 30, 2002				
	Business Group	Water Group	Water Group	Business Group	Co
(Amounts in thousands)					
Revenue - unaffiliated customers	$76,919	$ 50,222	$ 19,167	$ 13,354	
Inter-segment transfers	3,552	311	-	1,112	
Gross profit	19,728	12,611	7,462	8,017	
Equity income (loss)	1,345	7	503	-	
Income (loss) before interest, tax and minority interest	5,180	(411)	(2,661)	2,014	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes and minority interest	-	-	-	-	
Identifiable assets	296,114	136,171	68,976	28,719	
Investments in affiliated companies	17,335	-	2,870	-	
Goodwill	11,209	7,062	944	-	

	For the six months ended June 30, 2				
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	Co
(Amounts in thousands)					
Revenue - unaffiliated					

customers	$91,147	$ 71,666	$ 59,592	$ 14,231
Inter-segment transfers	1,987	1,969	-	998
Gross profit	20,321	16,601	26,063	7,802
Equity income (loss)	839	50	246	-
Income (loss) before interest, tax and minority interest	6,366	1,022	4,994	1,708
Interest income	-	-	-	-
Interest expense	-	-	-	-
Income before income taxes and minority interest	-	-	-	-
Goodwill	11,245	16,594	20,033	1,830

Identifiable assets at June 30, 2001 did not differ materially from identifiable assets at December 31, 2001.

6. Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." SFAS No. 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 is effective for financial statements for fiscal years beginning after June 15, 2002. The Company has determined that SFAS No. 143 will not have a material impact on its financial position and results of operations.

In October 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires one method of

accounting for long-lived assets disposed of by sale. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 effective January 1, 2002. SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In May 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement. SFAS No. 145 amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for financial statements for fiscal years beginning after May 15, 2002. The Company does not believe that SFAS No. 145 will have a material impact on the Company's financial position and results of operations.

In July 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and

Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002 and accordingly, the Company can only determine prospectively the impact, if any, SFAS No. 146 would have on the Company's financial position and results of operations.

7. Goodwill and Intangible Assets

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This accounting standard addresses financial accounting and reporting for goodwill and other intangible assets and requires that goodwill amortization be discontinued and replaced with periodic tests of impairment. A two-step impairment test is used to first identify potential goodwill impairment and then measure the amount of goodwill impairment loss, if any. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, and is required to be applied at the beginning of the fiscal year. Impairment losses, if any, that arise due to the initial application of this standard would be reported as a cumulative effect of a change in accounting principle. The first step of the goodwill impairment test, which must be completed within six months of the effective date of this standard, identifies any potential goodwill impairment. As of June 30, 2002, the Company completed the transitional goodwill impairment test and determined that no adjustment to goodwill was necessary.

In accordance with SFAS No. 142, amortization of goodwill was discontinued as of January 1, 2002. All of the Company's intangible assets are subject to amortization. The Company did not record any reclassification of amounts of intangible assets into or out of the amounts previously reported as goodwill.

The following tables reflect the adjustments to selected consolidated financial information to present pro forma amounts which exclude amortization of goodwill:

	(Amounts in thousands, except per share amo			
	Three Months Ended June 30,		Six Months Ended Jun	
	2002	2001	2002	20
Revenues	$ 79,321	$ 113,674	$ 159,662	$ 2
Income before income taxes and minority interest	$ 3,292	$ 5,646	$ 6,622	$
Goodwill amortization	-	829	-	
Adjusted income before income taxes and minority interest	$ 3,292	$ 6,475	$ 6,622	$
Net income	$ 2,094	$ 4,169	$ 4,031	$
Goodwill amortization, net of tax	-	651	-	
Adjusted net income	$ 2,094	$ 4,820	$ 4,031	$

Reported basic earnings per share	$ 0.12	$ 0.24	$ 0.23
Goodwill amortization, net of tax	-	0.04	-
Adjusted basic earnings per share	$ 0.12	$ 0.28	$ 0.23
Reported diluted earnings per share	$ 0.12	$ 0.24	$ 0.23
Goodwill amortization, net of tax	-	0.04	-
Adjusted diluted earnings per share	$ 0.12	$ 0.28	$ 0.23

	(Amounts in thousands, except per share amount For the years ended December 31,		
	2001	2000	1999
Revenues	$ 466,732	$ 474,551	$ 358,217
(Loss) income before income taxes, minority interest and gain on sale of business	$ (16,631)	$ (2,224)	$ 29,731
Goodwill amortization	2,787	2,686	2,333
Adjusted (loss) income before income taxes, minority interest and gain on sale of business	$ (13,844)	$ 462	$ 32,064
Net income (loss)	$ 44,701	$ (1,870)	$ 19,361
Goodwill amortization, net of tax	2,188	2,228	1,774
Adjusted net income	$ 46,889	$ 358	$ 21,135
Reported basic earnings (loss) per share	$ 2.61	$ (0.12)	$ 1.20
Goodwill amortization, net of tax	0.13	0.14	0.11
Adjusted basic earnings per share	$ 2.74	$ 0.02	$ 1.31
Reported diluted earnings (loss) per share	$ 2.59	$ (0.12)	$ 1.18
Goodwill amortization, net of tax	0.13	0.14	0.11
Adjusted diluted earnings per share	$ 2.72	$ 0.02	$ 1.29

There was no change in the carrying value of goodwill during the quarter ended June 30, 2002, other than the impact of foreign currency translation adjustment. As a result of the foreign currency translation adjustment, the Equipment Business Group's goodwill balance increased $170,000 and the Ultrapure Water Group's goodwill balance increased by $8,000 from the respective balances at December 31, 2001.

The Company's net intangible assets included in other assets in the Consolidated Balance Sheets consist principally of patents and

trademarks. At June 30, 2002 and December 31, 2001, the net carrying value of these intangible assets was approximately $0.6 million. Intangible assets are amortized over a period ranging up to 20 years. All intangible assets are amortized on a straight-line basis. Amortization expense for intangible assets is estimated to be approximately $0.1 million for each of the next five years.

8. Acquisitions

In late June 2002, the Company's Australian subsidiary acquired the business and assets of Rudd Brothers, an Australian wholesale and retail distributor of chemical and cleaning products, for approximately $0.6 million. The assets acquired consist primarily of property, plant and equipment, inventory and certain intangibles. The allocation of the purchase price will be completed by the end of 2002. The results of operations of Rudd Brothers have not been included in the statement of operations since the acquisition was consummated at the end of the second quarter of 2002. Pro forma results of operations have not been presented as the effect of this acquisition on the financial statements was not material.

9. Divestiture

In May 2002, the Company completed its planned divestiture of its 55% equity interest in a Malaysian affiliate, which had previously been treated as "held for sale" and included in "other current assets." Included in the Company's first half results are revenues of $4.2 million and a $0.2 million pre-tax loss resulting from Malaysian operations. For the second quarter of 2002, revenues totaled $1.6 million and pre-tax profit amounted to $0.4 million, including a gain of approximately $0.8 million on the sale of the Company's equity interest in the Malaysian affiliate, which is included in "Selling, general and administrative" expenses.

10. Subsequent Event

In mid-July 2002, the Company acquired the business and assets of the EnChem division of Microbar Incorporated. The assets acquired consist primarily of patents and other intellectual property, inventory and equipment, and are used for wastewater treatment in the semiconductor industry. The purchase price was $0.4 million plus additional contingent payments to be made over a five-year period based on the profitability of the acquired business. The allocation of the purchase price will be completed by the end of 2002.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's Form 10-K Annual Report for the year ended December 31, 2001 contains Management's Discussion and Analysis of Financial Condition and Results of Operations at and for the year ended December 31, 2001. The following discussion and analysis describes material changes in the Company's financial condition since December 31, 2001. The analysis of results of operations compares the three and six month periods ended June 30, 2002 with the comparable periods of the prior fiscal year.

Results of Operations

Comparison of the Three and Six Month Periods Ended June 30, 2002 with the

Three and Six Month Periods Ended June 30, 2001

The Company reported consolidated revenues of $79.3 million and net income of $2.1 million for the second quarter of 2002, compared to $113.7 million and $4.2 million, respectively, during the second quarter of 2001. Revenues and net income during the six months ended June 30, 2002 were $159.7 million and $4.0 million, respectively, compared to revenues and net income of $236.6 million and $7.2 million, respectively, for the six months ended June 30, 2001. Results for 2001 include the operations of the Aqua Cool Pure Bottled Water business, which was divested on December 31, 2001.

As part of the Company's adoption of a matrix business organization effective January 1, 2002, results associated with the Company's trailer leasing and non-consumer bleach based chemical supply businesses are included in the Ultrapure Water Group (UWG), rather than the Equipment Business Group (EBG) segment where they had historically been presented. Segment information for all periods presented has been restated to reflect these changes. Aggregate second quarter 2002 revenues and gross margin for these businesses were $6.1 million and $1.6 million, respectively, compared to revenues and gross margin of $5.6 million and $1.5 million, respectively, for the second quarter of 2001. For the first half of 2002, revenues and gross margin for these businesses were $13.4 million and $3.7 million, respectively, compared to revenues and gross margin of $12.6 million and $3.5 million, respectively, for the first half of 2001.

Total Company revenues for the second quarter of 2002 decreased 30.2% to $79.3 million from $113.7 million for the year-earlier period. Excluding the second quarter 2001 Aqua Cool Pure Bottled Water revenues of $19.2 million, second quarter revenues were down $15.2 million, or 16.0%, from the comparable period of 2001. Revenues for the first six months of 2002 totaled $159.7 million, compared to $236.6 million for the comparable six month period of 2001. Total revenue declined $40.9 million, or 20.4%, in the first half of 2002 compared to the same period of 2001, excluding bottled water revenues.

EBG revenues during the second quarter of 2002 of $38.6 million decreased by $7.5 million, or 16.3%, compared to revenues of $46.2 million during the second quarter of 2001. For the six-month period ended June 30, 2002, EBG revenues of $76.9 million decreased $14.2 million, or 15.6%. Revenue decreases over the year-earlier periods reflect lower revenue levels from domestic capital equipment sales, as well as the substantial completion of the construction phase of the Trinidad desalination project, for which the Company's Trinidad subsidiary serves as the equipment supply contractor.

UWG revenues during the second quarter of 2002 of $25.2 million decreased by $5.6 million, or 18.3%, compared to revenues of $30.8 million in the second quarter of 2001. During the six-month period ended June 30, 2002, revenues of $50.2 million decreased $21.4 million, or 29.9%, compared to revenues of $71.7 million for the six months ended June 30, 2001. In both periods ended June 30, 2002, revenue levels were affected by continued softness in the microelectronics industry, particularly with respect to domestic capital equipment sales.

Consumer Water Group (CWG) revenues during the second quarter of 2002 of $8.7 million decreased by $21.6 million, or 71.3%, compared to revenues of $30.2 million in the second quarter of 2001. Excluding second quarter 2001 revenues of $19.2 million associated with the bottled water business, revenues in the second quarter of 2002 decreased by $2.4 million, or 21.5%, compared to the year-earlier period. For the six months ended June 30, 2002, revenues of $19.2 million decreased $40.4 million, or 67.8%, compared to revenues of $59.6 million

for the year-earlier period. Adjusted to exclude 2001 revenues of $36.1 million associated with the bottled water business, revenues decreased by $4.3 million, or 18.4%. Revenues were affected by a lower demand for automobile windshield wash solution and consumer bleach products of the Company's Elite Consumer Products business, and by lower demand for the Company's home water treatment equipment.

Instrument Business Group (IBG) revenues during the second quarter of 2002 of $6.8 million for the second quarter of 2002 increased $0.4 million, or 5.7%, compared to $6.4 million for the second quarter of 2001. For the six months ended June 30, 2002, revenues of $13.4 million were down $0.9 million, or 6.2%, compared to revenues of $14.2 million for the six months ended June 30, 2001. IBG revenues have also been affected by continued softness in the microelectronics industry, which is an important customer for the group's instrument products.

The Company's cost of sales as a percentage of revenue for the second quarter was 68.9% in 2002 and 69.3% in 2001, and resulting gross margin was 31.1% in the second quarter of 2002 compared to 30.7% in the second quarter of 2001. For the first half of 2002, cost of sales as a percentage of revenue of 70.1% was unchanged from the first half of 2001. For the quarter and six months ended June 30, 2002, cost of sales as a percentage of revenue decreased in the EBG, UWG, and IBG business groups and increased in the CWG segment, compared to comparable periods in 2001.

EBG's cost of sales as a percentage of revenue decreased to 73.9% in the second quarter and 74.4% in the first half of 2002, as compared to 77.6% and 77.7% in the same respective periods in 2001, reflecting a change in product mix from lower margin capital equipment revenue (including the capital equipment portion of the Trinidad project) to more profitable service and supply business. UWG's cost of sales as a percentage of revenue decreased to 73.9% and 74.9% for the second quarter and first half of 2002, respectively, as compared to 79.1% and 76.8% for the second quarter and first half of 2001, respectively. The decrease in cost of sales as a percentage of revenue is primarily attributable to reduced losses in the Company's Malaysian and Australian subsidiaries, both of which incurred significant charges in 2001, primarily losses on under-performing contracts. The Company's interest in the Malaysian subsidiary was divested in May, 2002. Cost of sales as a percentage of revenue for CWG increased to 56.2% and 61.1% in the second quarter and first half of 2002, respectively, from 51.3% and 56.3% in the second quarter and first half of 2001, respectively. The increase in cost of sales as a percentage of revenue is primarily attributable to the exclusion of the Aqua Cool Pure Bottled Water business, which was divested on December 31, 2001, as well as a gain recognized on the sale of certain bottled water assets in the second quarter of 2001. IBG's cost of sales as a percentage of revenue decreased to 37.9% and 40.0% in the second quarter and first half of 2002, respectively, as compared to 46.4% and 45.2% in the second quarter and first half of 2001, respectively. The decrease in cost of sales as a percentage of revenue primarily reflects a higher proportion of more profitable after-market service revenue as compared to lower margin capital equipment revenue.

Operating expenses ("Research and development" and "Selling, general, and administrative") as a percentage of revenue increased during the second quarter of 2002 to 28.6% from 25.7% in 2001. For the six month period, operating expenses as a percentage of revenue increased to 27.4% in 2002 from 25.1% in 2001. The increases are primarily a function of lower revenue levels during 2002 compared to 2001. Factors impacting operating expenses during the quarter ended June 30, 2002 included a gain of approximately $0.8 million resulting from the Company's divestiture of its 55% equity interest in its Malaysian subsidiary, offset by net foreign exchange losses and certain restructuring charges in the CWG segment following the Company's divestiture of the bottled water business.

For the six months ended June 30, 2002, interest income increased to $1.9 million compared to $1.0 million for the first six months of 2001. The increase in interest income reflected investment of the proceeds from the sale of the bottled water business. Interest expense of $0.4 million and $0.9 million for the second quarter and first half of 2002, respectively, decreased from $1.4

million and $3.1 million from the respective periods in 2001, reflecting a reduction in average borrowings as a result of the pay-down of current debt, primarily from the proceeds of the sale of the bottled water business.

For the first six months of 2002, equity income increased to $1.7 million compared to $1.0 million in the first six months of 2001 primarily reflecting the Company's equity earnings in its 40% ownership interest of Desalcott and in two projects located in Mexico in which the Company has a 20% interest.

The Company's effective tax rate was 34% for all periods presented. The current year's effective rate reflects anticipated profit before tax adjusted for items such as non-deductible operating losses and anticipated tax planning initiatives.

Financial Condition

Working capital increased $6.9 million during the first six months of 2002 while the Company's current ratio of 3.0 at June 30, 2002 increased from 2.4 at December 31, 2001.

Accounts payable and accrued expenses decreased $19.6 million during the first half of 2002, reflecting lower revenue levels during the first six months of 2002 compared to 2001. Income taxes payable decreased $19.6 million during the first half of 2002, primarily reflecting tax payments made on the gain from the sale of the Company's Aqua Cool Pure Bottled Water business.

Net cash used by operating activities amounted to $26.5 million, reflecting cash used for payments of accounts payable, accrued expenses and current income taxes, offset by depreciation and amortization charges of $11.2 million. Net cash used by investing activities amounted to $14.0 million during the first six months of 2002, reflecting additions to property, plant and equipment, primarily relating to investments made in the Company's UWG segment for a build, own and operate facility in the power industry. Net cash used by financing activities totaled $2.4 million during the first six months of 2002, primarily reflecting pay-down of the Company's short-term borrowings.

In the second quarter of 2002, construction was completed on the first four (out of five) phases of the Trinidad desalination facility owned by Desalination Company of Trinidad and Tobago Ltd. (Desalcott), in which the Company has a 40% equity interest, and the facility commenced water deliveries to its customer, the Water and Sewerage Authority of Trinidad and Tobago. The Company has loaned $10 million to the 60% equity owner, Hafeez Karamath Engineering Services Ltd. (HKES), as the source of HKES' equity contribution to Desalcott, in addition to the $10 million contributed by the Company for its 40% equity interest. In 2000, Desalcott entered into a "bridge loan" agreement with a Trinidad bank providing $60 million in construction financing. Effective November 8, 2001, the loan agreement was amended to increase maximum borrowings to $79.9 million. The Company has committed to lend up to $10 million to Desalcott as an additional source of funds for project completion costs once all bridge loan proceeds have been expended. However, the bridge loan of $79.9 million and the $20 million equity provided to Desalcott, together with the additional $10 million dollars

to be loaned to Desalcott by the Company, will not provide sufficient funds to pay all of Desalcott's obligations in completing construction and commissioning of the project prior to receipt of long-term financing. Included in these obligations is approximately $22.3 million, payable to the Company's Trinidad subsidiary for equipment and services in connection with the construction of the facility. The Company intends to convert $10 million of this amount into a loan to Desalcott to satisfy the Company's loan commitment described above. The Company anticipates that Desalcott will pay its outstanding obligations to the Company's subsidiary partially out of cash flow from the sale of water and from the proceeds of long-term debt financing. However, although Desalcott has received proposals, including a term sheet, for long-term debt financing which it anticipates obtaining by year-end, there is no assurance that such financing will be obtained on terms acceptable to Desalcott.

During 2001, the Company acquired a 25% equity ownership interest in a Kuwaiti project company, Utilities Development Company W.L.L. (UDC), which was awarded a concession agreement by an agency of the Kuwaiti government for the construction, ownership and operation of wastewater reuse facility in Kuwait. At March 31, 2002, the Company had deferred costs of approximately $1.1 million relating primarily to preliminary project management and initial design work on the project, and had invested $1.5 million in the project company. During the second quarter of 2002, UDC entered into agreements for the long-term financing of the project, and accordingly the Company commenced recognizing revenue in accordance with American Institute of Certified Public Accountants Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Construction-Type Contracts."

On December 31, 2001, the Company completed the sale of its Aqua Cool Pure Bottled Water operations in the United States, United Kingdom and France to affiliates of Perrier-Vittel S.A., a subsidiary of Nestle S.A. (Nestle), for approximately $220 million, of which $10 million is being held in escrow pursuant to the terms of the divestiture agreement. The amount of the purchase price is subject to final adjustment based on the number of customers and working capital levels of the transferred businesses, in each case as determined in accordance with the divestiture agreement. The process for determining the number of customers and working capital levels, as well as any related purchase price adjustments, is under way. In addition, Nestle is seeking payment of certain amounts under the indemnification provisions of the divestiture agreement. While the ultimate amount of purchase price adjustments or indemnification payments, if any, cannot yet be determined with certainty, the Company currently believes that the reserves it has established for purchase price adjustments and the escrowed amount will be adequate in all material respects to cover the resolution of these issues. Accordingly, no additional provision for any liability that might result from any of these matters has been included in the accompanying financial statements for the current year.

On March 28, 2002, the Company amended its primary domestic credit agreement to reduce the borrowing limit to $30 million, eliminate and revise certain financial and other covenants, extend the term of the agreement until March 2003, and make Fleet National Bank the sole lender.

The Company believes that its cash and cash equivalents, cash from operations, lines of credit and foreign exchange facilities are adequate to meet its currently anticipated needs for the foreseeable future.

Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 143, "Accounting for Obligations

Associated with the Retirement of Long-Lived Assets." SFAS No. 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 is effective for financial statements for fiscal years beginning after June 15, 2002. The Company has determined that SFAS No. 143 will not have a material impact on its financial position and results of operations.

In October 2001, FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires one method of accounting for long-lived assets disposed of by sale. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 effective January 1, 2002. SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In May 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement. SFAS No. 145 amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for financial statements for fiscal years beginning after May 15, 2002. The Company does not believe that SFAS No. 145 will have a material impact on the Company's financial position and results of operations.

In July 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit of disposal plan and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002 and accordingly, the Company will prospectively determine the impact,if any, SFAS No. 146 will have on the Company's financial position and results of operations

Forward-Looking Information

Safe Harbor Statement under Private Securities Litigation Reform Act of 1995

The Company's future results of operations and certain statements contained in this report, including, without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitute forward-looking statements. Such statements are based on management's current views and assumptions and involve risks, uncertainties and other factors that could cause actual results to differ materially from management's current expectations. Among these factors are the matters described under "Risks and Uncertainties" contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2001; business conditions and the general economy; competitive factors, such as acceptance of new products and price pressures; risk of nonpayment of accounts receivable; risks associated

with foreign operations; risks involved in litigation; regulations and laws affecting business in each of the Company's markets; market risk factors, as described below under "Quantitative And Qualitative Disclosures About Market Risk"; and other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Instruments

In 2001, the Company's Italian subsidiary entered into a series of U.S. dollar/euro options contracts with the intent of offsetting the foreign exchange risk associated with forecasted cash flows related to an ongoing project. These options contracts were not entered into for trading purposes. In accordance with the restrictions set forth in SFAS No. 133, the contracts do not qualify for hedge accounting treatment. The fair market value of the contracts were recorded as a liability of $1.2 million in the other current liabilities section of the Consolidated Balance Sheet at December 31, 2001. End-of-period changes in the market value of the contracts were reflected in the selling, general and administrative expenses in the Consolidated Statement of Operations. In addition, the Company periodically enters into foreign exchange contracts to

hedge certain operational and balance sheet exposures against changes in foreign currency exchange rates. The Company had no foreign exchange contracts outstanding at June 30, 2002 and 2001.

Market Risk

The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's investment portfolio of cash equivalents is subject to interest rate fluctuations, but the Company believes this risk is not material due to the short-term nature of these investments. At June 30, 2002, the Company had $9.6 million of short-term debt and $11.1 million of long-term debt outstanding. The major portion of this debt has variable interest rates and, therefore is subject to interest rate risk. However, a hypothetical increase of 10% in these interest rates for a one-year period would result in additional interest expense that would not be material in the aggregate. The Company's net foreign currency exchange gain was approximately $1.5 million for the six months ended June 30, 2002, compared to $0.3 million for the six months ended June 30, 2001. The Company's exposure to foreign currency exchange rate fluctuations is moderated by the fact that the operations of its international subsidiaries are primarily conducted in their respective local currencies. Also, in certain situations, the Company will consider entering into forward exchange contracts to mitigate the impact of foreign currency exchange fluctuations.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

a) The Annual Meeting of the Stockholders was held on May 8, 2002. Douglas R.

Brown, Kathleen F. Feldstein, Arthur L. Goldstein and Carl S. Sloane were reelected as Class I Directors for a three-year term. Continuing as Class II Directors until the 2003 Annual Meeting are Arnaud de Vitry d'Avaucourt, William E. Katz, Daniel I. C. Wang and Mark S. Wrighton. Continuing as Class III Directors until the 2004 Annual Meeting are Stephen L. Brown, William K. Reilly, John J. Shields and Allen S. Wyett. The numbers of votes cast for the election of the Class I Directors were as follows:

	For	Withheld
Douglas R. Brown	12,185,123	2,246,851
Kathleen F. Feldstein	12,184,070	2,247,905
Arthur L. Goldstein	12,178,072	2,253,903
Carl S. Sloane	12,183,827	2,248,148

b) The other matters submitted for stockholder approval were (i) approval of an amendment to the Company's 1997 Stock Incentive Plan to increase the number of shares available for issue under such Plan by 800,000 shares, and (ii) the ratification of the selection of PricewaterhouseCoopers LLP as the Company's auditors for 2002. The following were cast in connection with these matters:

i) Approval of Amendment to 1997 Stock Incentive Plan

Votes for:	8,844,428
Votes against:	5,498,404
Abstentions:	89,192

ii) Ratification of the selection of PricewaterhouseCoopers LLP as auditors for 2002.

Votes for:	14,071,166
Votes against:	318,749
Abstentions:	42,059

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

None

b) Reports on Form 8-K

One report on Form 8-K was filed by the Company with the Securities and Exchange Commission during the three-month period ended June 30, 2002. This report, filed on June 24, 2002, reported under Item 5 the signing of certain contracts in connection with a wastewater treatment project in Kuwait.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IONICS, INCORPORATED

Date: August 14 , 2002 By: /s/Arthur L. Goldstein

Arthur L. Goldstein
Chairman and Chief Executive Officer
(duly authorized officer)

Date: August 14 , 2002 By: /s/Daniel M. Kuzmak

Daniel M. Kuzmak
Vice President and Chief Financial Officer
(principal financial officer)