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IONICS INC
Form 8-K
May 11, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K
Current Report

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 10, 2004

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

| | | |
|--|---------------------------------|---|
| Massachusetts (State of incorporation) | 1-7211 (Commission File No.) | 04-20 (IRS Employer Id |
| 65 Grove Street, Watertown, MA (Address of principal executive offices) | 02472 (Zip Code) | (617) 9 (Registrant's t including |

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Item 7. Financial Statements and Exhibits

| Exhibit Number | Description |
|----------------|-------------|
| ----- | ----- |

| | |
|----|---|
| 99 | Press Release dated May 10, 2004, reporting the financial results of Ionics, Incorporated for the quarter ended March 31, 2004. |
|----|---|

Item 12. Results of Operations and Financial Condition

On May 10, 2004, Ionics, Incorporated issued a press release reporting its financial results for the quarter ended March 31, 2004. A copy of the Press Release is attached hereto as Exhibit 99 and is hereby incorporated by reference.

SIGNATURES

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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 duly authorized.

IONICS, INCORPORATED

May 10, 2004

By: /s/Stephen Korn

Name: Stephen Korn

Title: Vice President and General Counsel

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EXHIBIT INDEX

| Number | Description | Page Number |
|--------|---|-------------|
| 99 | Press release dated May 10, 2004, reporting the financial results of Ionics, Incorporated for the quarter ended March 31, 2004. | 4 |

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EXHIBIT 99

IONICS REPORTS RESULTS FOR THE FIRST QUARTER OF 2004

Watertown, MA, May 10, 2004 . . . Ionics, Incorporated (NYSE-ION) today reported results for the three-month period ended March 31, 2004. First quarter revenues were \$107.4 million compared to \$82.6 million for the first quarter of 2003. The net loss of \$4.0 million, or (\$0.19) per share, in Q1 2004 compared to net income of \$0.6 million, or \$0.03 per share, for Q1 2003. For continuing operations, the loss per share of (\$0.06) in Q1 2004 compares to earnings per share of \$0.05 in Q1 2003. Excluding amortization of intangibles, loss per share for continuing operations of (\$0.03) compares to earnings per share of \$0.06 in the first quarter of 2003.

The results for the first quarter include a \$3.3 million charge related to Carmel Desalination Limited (CDL), an Israeli project company in which Ionics holds a 33 1/3% ownership interest. Other items included in the results were \$0.6 million of restructuring charges and \$0.6 million in systems development charges.

Also included are the consolidated results of the Ecolochem Group (acquired on February 13, 2004), and Desalcott (Desalination Company of Trinidad and Tobago Ltd.), the Company's 40% owned joint venture in Trinidad. Desalcott's results were included in the consolidated results of the Company in accordance with the provisions of FIN46. Ecolochem revenues from February 14 through the end of the quarter were \$11.9 million, and Desalcott revenues for the full quarter were \$6.9 million.

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The CDL charge was taken as a result of the Israel Water Desalination Agency's ("WDA") notification of its intent to terminate the concession agreement with CDL. As a result, the Company recorded a charge including all assets and liabilities related to this project. The majority of the charge (\$2.5 million) relates to the Company's pro rata portion of CDL's performance bond, upon which the WDA has made a demand. Commenting on the dispute between CDL and the WDA, Douglas Brown, Ionics' CEO stated, "In our view, the failure of the CDL project was due to the failure of the Israeli government to fulfill its obligations. Among other things, the water project included a power plant which the WDA approved with our original contract award. Subsequently, the government declined the permit for the power plant, thereby substantially damaging the project's economics. Therefore, CDL has made a claim against the government, which, if successful, would allow Ionics to recover the charge we have taken this quarter. Ionics and our Israeli partners in CDL intend to vigorously pursue the recovery of these funds." The dispute between CDL and the WDA has been submitted to binding arbitration in Israel, with final resolution anticipated in the third quarter of 2004.

Backlog at the end of the first quarter was \$464.1 million and included the backlog of Ecolochem of \$52.5 million, and the net backlog of Desalcott of \$93.7 million.

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Ionics will host a conference call tomorrow, Tuesday, May 11, 2004 at 10:30AM, EDT to discuss its first quarter financial results. This conference call will be accessible on the Company's home page, at <http://www.shareholder.com/ion/medialist.cfm>. Recorded replays of the financial results conference call will be available on the web site for a one-week period beginning later that day.

About Ionics, Inc.

Ionics is a global leader in water purification and wastewater treatment. The Company has over 50 years of experience in the design, installation, operation and maintenance of water and wastewater treatment systems and is a leading provider of emergency and long-term water treatment services. More membrane-based desalination systems have been designed and built by Ionics than any other supplier worldwide. Ionics is also a leader in supplying zero-liquid-discharge systems, in providing ultrapure water systems for the power and microelectronics industries, and in the measurement and analysis of water impurities. The Company also supplies Point-of-Use and Point-of-Entry water treatment systems for commercial and residential applications. For more information, visit www.ionics.com.

Safe-harbor statement under the Private Securities Litigation Reform Act of 1995: Forward-looking statements in this news release involve risk and uncertainty. The statements contained in this release which are not historical facts are forward-looking statements. These forward-looking statements are based on management's current views and assumptions and are neither promises nor guarantees but are subject to risks, uncertainties and other factors that could cause actual results to differ materially from management's current expectations as described in such forward-looking statements, including overall economic and business conditions; competitive factors, such as acceptance of new products, pricing pressures and competition from competitors larger than the Company; risks of nonpayment of accounts receivable, including those from affiliated companies; risks associated with foreign operations; technological and product

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development risks; availability of manufacturing capacity; risks associated with the Company's restructuring program announced in September 2003; risks associated with the integration of Ecolochem's operations with those of the Company; and other factors described in the Company's filings with the Securities and Exchange Commission, including its annual report on Form 10-K for the year ended December 31, 2003. You should not place undue reliance on the forward-looking statements in this press release, and the Company disavows any obligation to update or supplement those statements in the event of any changes in the facts, circumstances, or expectations that underlie those statements.

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IONICS REPORTS FIRST QUARTER RESULTS

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share amounts)

| | Three months ended March 31, | |
|---------------------------------------|---------------------------------|-----------|
| | 2004 | 2003 |
| Revenues: | | |
| Equipment Sales | \$ 33,430 | \$ 29,552 |
| Operations | 52,406 | 27,682 |
| Consumer Water | 5,721 | 5,200 |
| Instruments | 8,751 | 8,379 |
| Affiliated companies | 7,115 | 11,777 |
| | 107,423 | 82,590 |
| Costs and expenses: | | |
| Cost of sales of Equipment Sales | 27,873 | 22,642 |
| Cost of sales of Operations | 34,548 | 19,133 |
| Cost of sales of Consumer Water | 2,405 | 2,238 |
| Cost of sales of Instruments | 4,006 | 3,589 |
| Cost of sales to affiliated companies | 6,110 | 10,217 |
| Research and development | 1,531 | 1,777 |
| Selling, general and administrative | 29,023 | 21,674 |
| Restructuring charges | 564 | - |
| | 106,060 | 81,270 |
| Income from continuing operations | 1,363 | 1,320 |
| Interest (expense) income, net | (3,322) | 556 |
| Equity income (loss) | 490 | (101) |

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| | | |
|---|------------|-----------|
| (Loss) income from continuing operations before income tax and minority interest expense | (1,469) | 1,775 |
| Income tax benefit (expense) | 470 | (624) |
| (Loss) income from continuing operations before minority interest expense | (999) | 1,151 |
| Minority interest expense | 253 | 198 |
| (Loss) income from continuing operations | (1,252) | 953 |
| Loss on discontinued operations, net of tax | (2,699) | (377) |
| Net (loss) income | \$ (3,951) | \$ 576 |
| Basic (loss) earnings per share from continuing operations | \$ (0.06) | \$ 0.05 |
| Basic loss per share from discontinued operations | (0.13) | (0.02) |
| Basic net (loss) earnings per share | \$ (0.19) | \$ 0.03 |
| Diluted (loss) earnings per share from continuing operations | \$ (0.06) | \$ 0.05 |
| Diluted loss per share from discontinued operations | (0.13) | (0.02) |
| Diluted net (loss) earnings per share | \$ (0.19) | \$ 0.03 |
| Shares used in basic (loss) earnings per share calculations | 20,322 | 17,555 |
| Shares used in diluted (loss) earnings per share calculations | 20,322 | 17,562 |
| Backlog | \$464,062 | \$348,488 |

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Other Data:

Three months ended
March 31,

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| | 2004 | 2003 |
|---|------------|----------|
| | ----- | ----- |
| Reconciliation of net (loss) income from continuing operations to EBITA from continuing operations: | | |
| (Loss) income from continuing operations | \$ (1,252) | \$ 953 |
| Add back: | | |
| Amortization of intangibles, net of tax | 725 | 51 |
| | ----- | ----- |
| EBITA (loss) income from continuing operations | \$ (527) | \$ 1,004 |
| | ===== | ===== |
| Diluted (loss) income per share from continuing operations | \$ (0.06) | \$ 0.05 |
| Add back: | | |
| Amortization of intangibles, net of tax | 0.04 | 0.00 |
| | ----- | ----- |
| EBITA diluted (loss) income per share from continuing operations | \$ (0.03) | \$ 0.06 |
| | ===== | ===== |

Management believes that the diluted (loss) earnings per share from continuing operations excluding the amortization of intangibles is a key performance indicator, because the amortization charge is non cash and relates essentially to the Ecolochem transaction.

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IONICS REPORTS FIRST QUARTER RESULTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

| | March 31, 2004 | December 31, 2003 |
|---------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$ 68,002 | \$ 133,815 |
| Restricted cash | 18,730 | - |
| Short-term investments | 679 | - |
| Notes receivable, current | 7,810 | 6,365 |
| Accounts receivable, net | 106,071 | 87,415 |
| Receivables from affiliated companies | 13,787 | 22,140 |
| Inventories | 30,294 | 24,716 |
| Assets from discontinued operations | 2,976 | 7,466 |
| Other current assets | 50,915 | 33,901 |

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| | | |
|---|--------------|------------|
| Total current assets | 299,264 | 315,818 |
| Receivables from affiliated companies, long-term | 10,046 | 20,915 |
| Notes receivable, long-term, net | 28,700 | 28,408 |
| Investments in affiliated companies | 11,042 | 14,362 |
| Property, plant and equipment, net | 399,411 | 171,785 |
| Goodwill | 183,435 | 7,695 |
| Intangible assets, net | 79,830 | 6,378 |
| Other assets | 31,010 | 26,616 |
| | ----- | ----- |
| Total assets | \$ 1,042,738 | \$ 591,977 |
| | ===== | ===== |
| Current liabilities: | | |
| Notes payable and current portion of long-term debt | \$ 9,129 | \$ 6,276 |
| Accounts payable | 36,429 | 28,279 |
| Billings in advance from affiliated companies | - | 3,629 |
| Liabilities from discontinued operations | 239 | 396 |
| Other current liabilities | 88,968 | 79,512 |
| | ----- | ----- |
| Total current liabilities | 134,765 | 118,092 |
| Long-term debt and notes payable | 290,108 | 8,889 |
| Deferred income taxes | 34,360 | 30,979 |
| Minority interest | 14,926 | 1,426 |
| Accumulated losses in investments in affiliated companies | 6,079 | 5,068 |
| Other liabilities | 11,413 | 11,358 |
| Stockholders' equity | 551,087 | 416,165 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 1,042,738 | \$ 591,977 |
| | ===== | ===== |

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For more information, contact:

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