IONICS INC
Form 10-Q/A
December 04, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A
AMENDMENT NO. 1 TO FORM 10-Q

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

For the quarterly period ended March 31, 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<br>(State or other jurisdiction of incorporation or organization) | 04-2068530<br>(IRS Employer Identification Number) |
|---|---|
| 65 Grove Street<br>Watertown, Massachusetts<br>(Address of principal executive offices) | 02472<br>(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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes No

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

At March 31, 2002 the registrant had 17,533,742 shares of Common Stock, par value $1 per share, outstanding.

EXPLANATORY NOTE

Ionics, Incorporated (the "Company") is filing this Amendment No. 1 to Form 10-Q

to amend its quarterly report on Form 10-Q for the quarterly period ended March 31, 2002 to reflect the restatement of its consolidated financial statements for the three months ended March 31, 2002. The restatement was primarily the result of intercompany transactions, including transactions between the Company and its French subsidiary that were erroneously recorded at the subsidiary level. The Company's consolidated financial statements as of and for the three months ended March 31, 2002 contained in this Amendment No. 1 to Form 10-Q reflect the effect of the restatement. See Note 2 to Notes to Consolidated Financial Statements.

The Company has amended in their entirety Items 1 and 2 of Part I of this quarterly report to reflect changes resulting from the restatement described above, and to update the information contained therein to reflect developments which have occurred subsequent to May 15, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended March 31, 2002. In addition, this Amendment No. 1 to Form 10-Q also amends Item 3 of Part I of this quarterly report to reiterate and update information previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and Item 6 of Part II of this quarterly report to reflect that the exhibit referred to therein had previously been filed.

IONICS, INCORPORATED
FORM 10-Q/A
FOR QUARTER ENDED MARCH 31, 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 March 31, | |
|---|---|---|
| | 2002 | 2001 |
| Revenues: | (as restated) | |
| Equipment Business Group | $ 35,048 | $ 39,628 |
| Ultrapure Water Group | 24,745 | 40,848 |
| Consumer Water Group | 10,553 | 29,240 |
| Instrument Business Group | 6,544 | 7,788 |
| Affiliated companies | 3,115 | 5,458 |
| | 80,005 | 122,962 |
| Costs and expenses: | | |
| Cost of sales of Equipment Business Group | 25,597 | 29,715 |
| Cost of sales of Ultrapure Water Group | 18,998 | 30,680 |
| Cost of sales of Consumer Water Group | 6,830 | 17,952 |
| Cost of sales of Instrument Business Group | 2,753 | 3,439 |
| Cost of sales to affiliated companies | 3,037 | 5,337 |
| Research and development | 1,621 | 1,690 |
| Selling, general and administrative | 19,855 | 28,501 |
| | 78,691 | 117,314 |
| Income from operations | 1,314 | 5,648 |
| Interest income | 993 | 225 |
| Interest expense | (560) | (1,604) |
| Equity income | 892 | 441 |
| Income before income taxes and minority interest | 2,639 | 4,710 |
| Provision for income taxes | 876 | 1,601 |
| Income before minority interest | 1,763 | 3,109 |

| | | |
|---|---|---|
| Minority interest in earnings | 264 | 114 |
| Net income | $ 1,499 | $ 2,995 |
| Basic earnings per share | $ 0.09 | $ 0.18 |
| Diluted earnings per share | $ 0.08 | $ 0.18 |
| Shares used in basic earnings per share calculations | 17,508 | 16,389 |
| Shares used in diluted earnings per share calculations | 17,776 | 16,574 |

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)

| | March 31, 2002 | December 31, 2001 |
|---|---|---|
| ASSETS | (as restated) | |
| Current assets: | | |
| Cash and cash equivalents | $ 145,717 | $ 178,283 |
| Short-term investments | 1,216 | 21 |
| Notes receivable, current | 4,954 | 4,892 |
| Accounts receivable, net | 103,964 | 118,255 |
| Receivables from affiliated companies | 19,664 | 17,199 |
| Inventories: | | |
| Raw materials | 20,890 | 20,047 |
| Work in process | 8,117 | 7,547 |
| Finished goods | 6,382 | 5,219 |
| | 35,389 | 32,813 |
| Other current assets | 11,013 | 11,031 |
| Deferred income taxes | 16,297 | 16,297 |
| Total current assets | 338,214 | 378,791 |
| Notes receivable, long-term | 23,257 | 23,210 |
| Investments in affiliated companies | 24,593 | 23,798 |
| Property, plant and equipment: | | |
| Land | 6,333 | 6,288 |
| Buildings | 41,353 | 41,272 |
| Machinery and equipment | 250,068 | 243,964 |
| Other, including furniture, fixtures and vehicles | 30,434 | 29,938 |

| | | |
|---|---|---|
| | 328,188 | 321,462 |
| Less accumulated depreciation | 160,417 | 154,430 |
| | 167,771 | 167,032 |
| Goodwill | 19,266 | 19,037 |
| Deferred income taxes, long-term | 12,643 | 12,643 |
| Other assets | 8,122 | 8,802 |
| Total assets | $ 593,866 | $ 633,313 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable and current portion of long-term debt | $ 1,916 | $ 14,257 |
| Accounts payable | 24,899 | 34,640 |
| Customer deposits | 3,617 | 2,159 |
| Accrued commissions | 1,968 | 2,011 |
| Accrued expenses | 53,643 | 58,064 |
| Income taxes payable | 30,004 | 45,735 |
| Total current liabilities | 116,047 | 156,866 |
| Long-term debt and notes payable | 10,244 | 10,126 |
| Deferred income taxes | 35,227 | 34,199 |
| Deferred revenue from affiliated companies | 3,364 | 3,360 |
| Other liabilities | 5,469 | 5,409 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value $1, authorized shares: 55,000,000 in 2002 and 2001; issued: 17,533,742 in 2002 and 17,477,005 in 2001 | 17,534 | 17,477 |
| Additional paid-in capital | 189,741 | 188,555 |
| Retained earnings | 243,816 | 242,317 |
| Accumulated other comprehensive income | (27,576) | (24,996) |
| Total stockholders' equity | 423,515 | 423,353 |
| Total liabilities and stockholders' equity | $ 593,866 | $ 633,313 |

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



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

T

| | 20 |
|---|---|
| | (as re |
| Operating activities: | |
| Net income | $ |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | |
| Depreciation and amortization | |
| Amortization of goodwill | |
| Provision for losses on accounts and notes receivable | |
| Equity in earnings of affiliates | |
| Changes in assets and liabilities: | |
| Notes receivable | |
| Accounts receivable and receivables from affiliated companies | |
| Inventories | |
| Other current assets | |
| Investments in affiliated companies | |
| Accounts payable and accrued expenses | ( |
| Income taxes | ( |
| Other | |
| Net cash (used in) provided by operating activities | ( |
| Investing activities: | |
| Additions to property, plant and equipment | |
| Disposals of property, plant and equipment | |
| Additional investments in affiliates | |
| (Purchase) sale of short-term investments | |
| Net cash used in investing activities | |
| Financing activities: | |
| Principal payments on current debt | ( |
| Proceeds from borrowings of current debt | |
| Principal payments on long-term debt | |
| Proceeds from borrowings of long-term debt | |
| Proceeds from stock option plans | |
| Net cash (used in) provided by financing activities | ( |
| Effect of exchange rate changes on cash | |
| Net change in cash and cash equivalents | ( |
| Cash and cash equivalents at beginning of period | 1 |
| Cash and cash equivalents at end of period | $ 1 |

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



IONICS, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 or any future period.

The accompanying financial statements have been prepared with the assumption that users of the interim financial information have either read or have access to the Company's financial statements for the year ended December 31, 2001. Accordingly, footnote disclosures that would substantially duplicate the disclosures contained in the Company's December 31, 2001 audited financial statements have been omitted from these financial statements. These financial statements have been prepared in accordance with the instructions to Form 10-Q and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such instructions, rules and regulations. These financial statements should be read in conjunction with the Company's 2001 Annual Report as filed on Form 10-K (the "2001 Form 10-K") with the Securities and Exchange Commission.

Certain prior year amounts have been reclassified to conform to the current year presentations. 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) segment, rather than the Equipment Business Group (EBG) segment where they had historically been presented. Segment information for all periods has been presented to reflect these changes. See Note 6 below. In addition, the consolidated quarterly financial statements now reflect revenues and cost of sales derived from transactions with affiliated entities in which the Company maintains less than a majority equity interest as "affiliated companies" revenues and costs of sales (see Note 5 of Notes to Consolidated Financial Statements of the 2001 Form 10-K). These amounts had previously been reflected within the reportable business segments. Shipping and handling costs are included in revenues and cost of sales. During the three months ended March 31, 2002, the Company recorded adjustments reflecting immaterial corrections to prior year periods which resulted in a reduction to net income of approximately $594,000. Such adjustments were recorded in the financial statements for the three months ended March 31, 2002 as originally reported and as restated.

In addition, Notes 3, 8 and 9 of the Notes to the Consolidated Financial Statements contained herein have been updated to reflect developments which have occurred subsequent to May 15, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended March 31, 2002.

2. Restatement of Quarterly Financial Statements

The Company's consolidated financial statements for the three months ended March 31, 2002 have been restated primarily as a result of intercompany transactions, including transactions between the Company and its French subsidiary that were erroneously recorded at the subsidiary level. The

restatement did not materially impact any items on the Company's consolidated balance sheet as of March 31, 2002. The following table presents a summary of the impact of the restatement on the Company's consolidated statements of operations for the three months ended March 31, 2002:

-5-

| | (Amounts in thousands, except per share amounts) Three months ended March 31, 2002 | |
|---|---|---|
| | As originally reported | As restated |
| Revenues | $ 80,341 | $ 80,005 |
| Costs and expenses | 78,336 | 78,691 |
| Income from operations | 2,005 | 1,314 |
| Income before income taxes and minority interest | 3,330 | 2,639 |
| Provision for income taxes | 1,132 | 876 |
| Minority interest in earnings | 261 | 264 |
| Net income | 1,937 | 1,499 |
| Basic earnings per share | $ 0.11 | $ 0.09 |
| Diluted earnings per share | $ 0.11 | $ 0.08 |

3. Commitments and Contingencies

Trinidad Project. 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. In 2000, the Company acquired 200 ordinary shares of Desalcott for $10 million and loaned $10 million to Hafeez Karamath Engineering Services Ltd. ("HKES"), the founder of Desalcott and promoter of the Trinidad desalination project, to enable HKES to acquire an additional 200 ordinary shares of Desalcott. Prior to those investments, HKES owned 100 ordinary shares of Desalcott. As a result, the Company currently owns a 40% equity interest in Desalcott, and HKES currently owns a 60% equity interest in Desalcott. The Company records 100% of any net loss and 40% of any net income reported by Desalcott. In periods in which Desalcott has an accumulated loss (as opposed to retained earnings), the Company records 100% of any net income of Desalcott up to the amount of Desalcott's accumulated loss, and 40% of any net income thereafter.

The Company's $10 million loan to HKES is included in long-term notes receivable on the Company's consolidated balance sheets. The loan bears interest at a rate equal to 2% above LIBOR, with interest payable starting October 25, 2002 and every six months thereafter and at maturity. Prior to maturity, however, accrued interest payments (as well as principal payments) are payable only to the extent dividends or other distributions are paid by Desalcott on the ordinary shares of Desalcott owned by HKES and pledged to the Company. Principal repayment is due in 14 equal installments commencing on April 25, 2004 and continuing semiannually thereafter. The loan matures and is payable in full on April 25, 2011. The loan is secured by a security interest in the shares of Desalcott owned by HKES and purchased with the borrowed funds, which is subordinate to the security

interest in those shares in favor of the Trinidad bank that provided the construction financing for Desalcott. In addition, any dividends or other distributions paid by Desalcott to HKES must be applied to loan payments to the Company.

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 is obligated 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 the Company is obligated to lend to Desalcott) have not provided 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 Desalcott's obligations at March 31, 2002 and September 30, 2002 was approximately $18.8 million and $24.2 million, respectively, payable to the Company's Trinidad subsidiary for equipment and services purchased in connection with the construction of the facility. The Company currently intends to convert



$10 million of this amount into a loan to Desalcott to satisfy the Company's loan commitment described above. The terms of this loan are currently being negotiated with Desalcott. The Company currently anticipates that Desalcott will pay its remaining outstanding obligations to the Company's subsidiary partially out of cash flow from the sale of water and from the proceeds from new long-term debt financing. Desalcott has received proposals for new long-term debt financing, including a term sheet and a draft term loan agreement from the Trinidad bank which provided the bridge loan, which it anticipates completing around year-end. Such new long-term debt financing may not be completed on terms acceptable to Desalcott, or at all. Moreover, although the Trinidad bank that made the bridge loan to Desalcott has not required repayment of the bridge loan, which matured on September 1, 2002, pending completion of the long-term debt financing, there can be no assurance that the bank will not exercise its rights and foreclose on its collateral, in which event the Company's equity investment in, and receivable from, Desalcott as well as the loan receivable from HKES would be at risk.

Kuwait Project. During 2001, the Company acquired a 25% equity 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 a wastewater reuse facility in Kuwait. 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." At March 31, 2002 and September 30, 2002, the Company had invested a total of $1.5 million and $1.6 million, respectively, in UDC as equity contributions and subordinated debt. The Company is committed to make additional contributions of equity or subordinated debt to UDC of $15.9 million over a two to three year period.

Israel Projects. The Company entered into agreements with Kibbutz Ma'agan Micha'el, an Israeli cooperative society, and I.P.P.S. Infrastructure Enterprises Ltd., an Israeli corporation, for the establishment of Magan Desalination Ltd. ("MDL") as an Israeli project company in which the

Company has a 49% equity interest. In August 2002, MDL entered into a concession contract with a state-sponsored water company for the construction, ownership and operation of a brackish water desalination facility in Israel. At March 31, 2002 and September 30, 2002, the Company had made a nominal equity investment in MDL, and had deferred costs of approximately $0.5 million and $0.7 million, respectively, relating to the design and development work on the project. The Company currently anticipates that it will invest approximately $1 million in MDL for its 49% equity interest. MDL is currently seeking approximately $7.7 million of debt financing for the project. If MDL is unable to obtain such debt financing, the Company would expense all its deferred costs relating to the project but would incur no other liability, inasmuch as no performance bond has been issued for the project.

In January 2002, the Company entered into agreements with Baran Group Ltd. and Dor Chemicals Ltd., both Israeli corporations, giving the Company the right to a one-third ownership interest in an Israeli project company, Carmel Desalination Ltd. ("CDL"). On October 28, 2002, CDL was awarded a concession agreement by the Israeli Water Desalination Agency (established by the Ministry of Finance and the Ministry of Infrastructure) for the construction, ownership and operation of a major seawater desalination facility in Israel. At September 30, 2002, the Company had not yet made any equity investment in CDL, and had deferred costs of approximately $0.3 million relating to the engineering design and development work on the project. No costs were deferred at March 31, 2002. If CDL obtains long-term project financing, the Company's total equity investment to be made in CDL would be approximately $8 million. The timing of such investment will depend upon the terms of the long-term financing agreement. Although the Company currently anticipates that CDL will obtain long-term financing for the project by the required date in April 2003, such financing may not be obtained. If CDL is unable to obtain such financing, the Company would expense all its deferred costs relating to the project and any investment the Company may have made in CDL (estimated to be approximately $0.8 million by the time of the closing of the long-term financing), and could incur its one-third proportionate share ($2.5 million) of liability under a $7.5 million performance bond issued on behalf of CDL.

Aqua Cool Pure Bottled Water Operations Disposition. 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.

Litigation. 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.

4. Earnings Per Share (EPS) Calculations

(Amounts in thousands, except per share amo

For the three months ended March 31,

| | 2002 | | | |
|---|---|---|---|---|
| | Net Income | Shares | Per Share Amount | Net Income |
| Basic EPS | | | | |
| Income available to common stockholders | $ 1,499 | 17,508 | $ 0.09 | $ 2,995 |
| Effect of dilutive stock options | - | 268 | (0.01) | - |
| Diluted EPS | $ 1,499 | 17,776 | $ 0.08 | $ 2,995 |

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 at the three months ended March 31, 2002 and 2001 was 604,250 and 1,568,234, respectively.

5. 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 "comprehensive income" as defined by SFAS No. 130 for the three-month periods ended March 31, 2002 and 2001.

| | (Amounts in thousands) Three months ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| Net income | $ 1,499 | $ 2,995 |
| Other comprehensive income, net of tax: | | |
| Translation adjustments | (2,580) | (4,590) |
| Comprehensive loss | $ (1,081) | $ (1,595) |

6. 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 has been presented to reflect these changes. In addition, the Company's Aqua Cool Pure Bottled Water business, which had been reported as part 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, 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 March 31, | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Equipment Business Group | Ultrapure Water Group | Consumer Water Group | Instrument Business Group |
| Revenue - unaffiliated | $ 35,048 | $ 24,745 | $ 10,553 | $ 6,544 |
| Revenue - affiliated | 3,115 | - | - | - |
| Inter-segment transfers | 1,894 | 148 | - | 477 |
| Gross profit - unaffiliated | 9,451 | 5,747 | 3,723 | 3,791 |
| Gross profit - affiliated | 78 | - | - | - |
| Equity income (loss) | 656 | (2) | 238 | - |
| Earnings (loss) before interest, tax and minority interest | 1,745 | (1,358) | (1,433) | 777 |
| Interest income | | | | |
| Interest expense | | | | |
| Income before income taxes and minority interest | | | | |
| Identifiable assets | 280,125 | 136,740 | 48,016 | 27,612 |
| Goodwill | 11,008 | 6,739 | 1,519 | - |

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Equipment Business Group | Ultrapure Water Group | Consumer Water Group | Instrument Business Group |

| | | | | |
|---|---|---|---|---|
| Revenue - unaffiliated | $ 39,628 | $ 40,848 | $ 29,240 | $ 7,788 |
| Revenue - affiliated | 5,353 | - | 105 | - |
| Inter-segment transfers | 1,397 | 1,181 | - | 682 |
| Gross profit - unaffiliated | 9,913 | 10,168 | 11,288 | 4,349 |
| Gross profit - affiliated | 68 | - | 53 | - |
| Equity income (loss) | 371 | 54 | 102 | - |
| Earnings (loss) before interest, tax and minority interest | 2,901 | 1,803 | 1,315 | 1,151 |
| Interest income | | | | |
| Interest expense | | | | |
| Income before income taxes and minority interest | | | | |
| Goodwill | 11,776 | 16,388 | 21,230 | 1,847 |

Identifiable assets at March 31, 2001 did not differ materially from identifiable assets at December 31, 2000.



7. 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 May 2002, the 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, the 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.

8. Goodwill and Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142). 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 will 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, will identify 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 adjusts reported net income and EPS to present pro forma amounts which exclude amortization of goodwill:

| | (Amounts in thousands, except per share amounts) Three months ended March 31, | |
|---|---|---|
| | 2002 | 2001 |
| Net income | $ 1,499 | $ 2,995 |
| Goodwill amortization, net of tax | - | 347 |
| Adjusted net income | $ 1,499 | $ 3,342 |
| Reported basic earnings per share | $ 0.09 | $ 0.18 |
| Goodwill amortization, net of tax | - | 0.02 |
| Adjusted basic earnings per share | $ 0.09 | $ 0.20 |
| Reported diluted earnings per share | $ 0.08 | $ 0.18 |
| Goodwill amortization, net of tax | - | 0.02 |
| Adjusted diluted earnings per share | $ 0.08 | $ 0.20 |

| | (Amounts in thousands, except per share amounts) For the years ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |

| | | | |
|---|---|---|---|
| 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 March 31, 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 decreased $35,000 and the Ultrapure Water Group's goodwill balance increased by $4,000 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 patents and trademarks. At March 31, 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.



9. Subsequent Events

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." In connection with the sale, the Company recorded a gain of $0.7 million during the second quarter of 2002. Included in the Company's results for the three months ended March 31, 2002 were revenues of $2.6 million and a $0.6 million pre-tax loss resulting from Malaysian operations.

In 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 in cash. This acquisition has been accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired based on their estimated fair values at the date of acquisition. The assets acquired consist primarily of property, plant and equipment, inventory, certain intangibles and goodwill. The results of operations of Rudd Brothers have been included in the Company's statements of operations from the date of acquisition. Pro forma results of operations

have not been presented, as the effect of this acquisition on the Company's consolidated results of operations was not material.

In July 2002, the Company acquired the business and assets of the EnChem division of Microbar Incorporated. The purchase price was $0.4 million in cash plus additional contingent payments to be made over a five-year period based on the profitability of the acquired business. This acquisition has been accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired based on their estimated fair values at the date of acquisition. 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 results of operations of the EnChem division have been included in the Company's statements of operations from the date of acquisition. Pro forma results of operations have not been presented, as the effect of this acquisition on the Company's consolidated results of operations was not material.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this Amendment No. 1 to Form 10-Q and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2001, which has been filed with the Securities and Exchange Commission. The analysis of results of operations compares the three month period ended March 31, 2002 with the comparable period of the prior fiscal year.

Restatement of Quarterly Financial Statements and Reclassifications

The Company's consolidated financial statements for the three months ended March 31, 2002 have been restated primarily as a result of intercompany transactions, including transactions between the Company and its French subsidiary that were erroneously recorded at the subsidiary level. See Note 2 to Notes to Consolidated Financial Statements. The following discussion of the financial condition and results of operations of the Company has been amended in its entirety to reflect changes resulting from this restatement, and to update the information contained therein to reflect developments which have occurred subsequent to May 15, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended March 31, 2002. In particular, information provided under "Financial Condition" with respect to the Company's commitments and contingencies, credit facilities and future capital requirements has been updated. In addition, the consolidated financial statements and information provided under "Results of Operations" now reflect revenues and costs of sales derived from transactions with affiliated entities in which the Company maintains less than a majority interest as "affiliated companies" revenues and costs of sales. These amounts had previously been reflected within the four business segments.

As part of the Company's adoption of a matrix business organization structure 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") segment, rather than the Equipment Business Group ("EBG") segment where they had historically been presented. Segment information for all periods have been presented to reflect these changes. Aggregate first quarter 2002 revenues and gross margin for these businesses were $7.2 million and $2.1 million, respectively, compared to revenues and gross margin of $7.0 million and $2.0 million, respectively, for the first quarter of 2001.

Results of Operations

Comparison of the Three Months Ended March 31, 2002 with the Three Months Ended March 31, 2001

The Company reported consolidated revenues of $80.0 million and net income of $1.5 million for the first quarter of 2002, which compared to $123.0 million of revenues and $3.0 million of net income earned during the first quarter of 2001. Results for the first quarter of 2001 include the operations of the Aqua Cool Pure Bottled Water business, which was divested on December 31, 2001. In addition, results for the first quarter of 2002 include $2.6 million in revenues and a $0.6 million pre-tax loss in the Company's Malaysian affiliate (included in the UWG segment), in which the Company held a 55% equity interest. At March 31, 2002, the Company was in the process of divesting this interest, and accordingly this asset was treated as "held for sale" and included in "Other current assets."

Revenues. The Company's revenues for the first quarter of 2002 of $80.0 million compared to revenues of $123.0 million in the first quarter of 2001. Excluding the first quarter 2001 Aqua Cool Pure Bottled Water revenues of $16.9 million, first quarter 2002 revenues decreased $26.0 million, or 24.6%, from the comparable period in the prior year, with declines in all four of the Company's business segments. The reduction in revenues was primarily attributable to continued softness in the microelectronics industry affecting both the UWG and Instrument Business Group (IBG).



EBG revenues of $35.0 million decreased by $4.6 million, or 11.6%, compared to revenues of $39.6 million during the first quarter of 2001. This decrease was primarily attributable to lower capital equipment revenues associated with the Zero Liquid Discharge equipment business.

UWG revenues of $24.7 million decreased by $16.1 million, or 39.4%, compared to revenues of $40.8 million in the first quarter of 2001. Revenue levels for UWG were affected by continued softness in the capital equipment portion of the microelectronics industry, both domestically and internationally.

Consumer Water Group ("CWG") revenues of $10.6 million decreased by $18.7 million, or 63.9%, compared to revenues of $29.2 million in the first quarter of 2001, which included revenues generated in the Company's Aqua Cool Pure Bottled Water business. Excluding revenues associated with the Aqua Cool Pure Bottled Water business (which was divested on December 31, 2001), revenues in the first quarter of 2002 were down 14.4%, or $1.8 million, from the first quarter of 2001. Revenues were primarily impacted by the warmer-than-expected winter, which affected revenue levels of CWG's consumer-based chemical business as a result of a lower demand for automobile windshield wash solution.

IBG revenues of $6.5 million decreased by $1.2 million, or 16.0%, compared to revenues of $7.8 million in the first quarter of 2001. Lower revenue levels were primarily attributable to continued softness in the microelectronics industry,

an important customer for IBG products.

Revenues from affiliated companies consist of revenues generated from entities in which the Company has a less than majority equity interest. These revenues amounted to $3.1 million for the first quarter of 2002 compared to $5.5 million for the first quarter of 2001. The 42.9% decrease in affiliated companies revenues primarily resulted from lower equipment sales to Desalcott as a result of the substantial completion of the construction phase of the Trinidad desalination facility.

Cost of sales. Total Company cost of sales as a percentage of revenue was 71.5% in the first quarter of 2002 compared to 70.9% in the first quarter of 2001, and resulting gross margin was 28.5% in first quarter of 2002 and 29.1% for the first quarter of 2001. Cost of sales as a percentage of revenue decreased in the EBG and IBG segments and increased in the UWG and CWG segments in the first quarter of 2002, over the comparable period for 2001. EBG's cost of sales as a percentage of revenue decreased to 73.0% for the first quarter of 2002 compared to 75.0% for the first quarter of 2001, reflecting a shift in product mix from lower margin capital equipment to more profitable water supply and other products. IBG's cost of sales as a percentage of revenue decreased to 42.1% in the first quarter of 2002 from 44.2% in the first quarter of 2001, primarily reflecting a shift in product mix from lower margin capital equipment to more profitable after-market services and software sales. UWG's cost of sales as a percentage of revenue increased from 75.1% in the first quarter of 2001 to 76.8% in the first quarter of 2002, primarily as a result of lower overall sales volume levels in 2002 compared to 2001. CWG's cost of sales as a percentage of revenue increased to 64.7% in the first quarter of 2002 from 61.4% in the first quarter of 2001, reflecting the exclusion of the Aqua Cool Pure Bottled Water business which was divested on December 31, 2001. Cost of sales to affiliated companies as a percentage of revenue decreased slightly to 97.5% for the first quarter of 2002 compared to 97.8% for the first quarter of 2001. This decrease was primarily due to lower revenues from sales to Desalcott. For accounting purposes, because the Company is deemed to have provided all of the equity funding for Desalcott, profit is being deferred and amortized over the balance of the term of the Trinidad concession agreement, which has resulted in lower margins on sales to Desalcott.

Operating expenses. Research and development expenses decreased 4.1% to $1.6 million in the first quarter of 2002 from $1.7 million in the first quarter of 2001. Selling, general and administrative expenses in the first quarter of 2002 decreased 30.3% to $19.9 million in the first quarter of 2002 from $28.5 million in the first quarter of 2001. These operating expenses, however, increased as a percentage of revenue to 26.8% in the first quarter of 2002 compared to 24.6% in the first quarter of 2001. This increase as a percentage of revenue resulted primarily from lower revenue levels during the first quarter of 2002. Other factors impacting operating expenses include net foreign currency exchange gains of approximately $1.7 million, relating primarily to the translation of certain of the proceeds from the sale of the Aqua Cool Pure Bottled Water business. These gains were partially offset by residual expenses incurred in the quarter of approximately $1.4 million, related primarily to on-going restructuring initiatives in the CWG segment following the divestiture of the Aqua Cool Pure Bottled Water business.

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Interest income (expense). Interest income of $1.0 million in the first quarter of 2002 represents an increase of $0.8 million from $0.2 million earned in the first quarter of 2001, reflecting investment of the proceeds from the Aqua Cool Pure Bottled Water business divestiture. Interest expense of $0.6 million for the first quarter of 2002 compared to $1.6 million for the first quarter of 2001. The decrease in interest expense was primarily attributable to lower

short-term borrowing during the 2002 period, which resulted primarily from the application of the proceeds from the sale of the Aqua Cool Bottled Water business on December 31, 2001.

Equity income. Equity income of $0.9 million during the first three months of 2002 compared to $0.4 million during the first three months of 2001. This increase was primarily the result of improved performance in two projects located in Mexico in which the Company has a 20% equity interest.

Taxes. The Company's effective tax rate was 33.2% for the first quarter of 2002 and 34.0% for the first quarter of 2001. The effective tax rate reflects anticipated profit before tax adjusted for items such as non-deductible operating losses, and anticipated tax planning initiatives such as maximizing foreign tax credit utilization and restructuring certain intercompany debt.

Net income. Net income was $1.5 million for the three months ended March 31, 2002, compared to net income of $3.0 million for the three months ended March 31, 2001.

Financial Condition

At March 31, 2002, the Company had $145.7 million in cash and cash equivalents and $222.2 million of working capital. Working capital increased $0.2 million during the first three months of 2002 while the Company's current ratio of 2.9 at March 31, 2002 increased from 2.4 at December 31, 2001. Net accounts receivable and receivables from affiliated companies and accounts payable and accrued expenses decreased $11.7 million and $12.5 million, respectively, during the first three months of 2002, primarily resulting from lower revenue levels. Current income taxes payable decreased $15.0 million during the first three months of 2002, primarily reflecting payments made on gain from the sale of the Company's Aqua Cool Pure Bottled Water business.

Net cash used by operating activities amounted to $13.9 million for the first three months of 2002, primarily reflecting cash used for payments of current income taxes, offset by increased collections on accounts receivable. The primary use of cash for investing activities of $7.5 million was for 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 was $10.9 million, primarily resulting from the pay-down of the Company's short-term borrowings utilizing the proceeds from the sale of the Aqua Cool Pure Bottled Water business.

From time to time, the Company enters into joint ventures with respect to specific projects, including the projects in Trinidad, Kuwait and Israel described below. Each joint venture arrangement is independently negotiated based on the specific facts and circumstances of the project, the purpose of the joint venture company related to the project, as well as the rights and obligations of the other joint venture partners. Generally, the Company has structured its project joint ventures so that the Company's obligation to provide funding to the underlying project or to the joint venture entity is limited to its proportional capital contribution, which can take the form of equity or subordinated debt. Except in situations that are negotiated with a specific joint venture entity, the Company has no other commitment to provide for the joint venture's working capital or other cash needs. In addition, the joint venture entity typically obtains third-party debt financing for a substantial portion of the project's total capital requirements. In these situations, the Company is typically not responsible for the repayment of the indebtedness incurred by the joint venture entity. In connection with certain joint venture projects, the Company may also enter into contracts for the supply and installation of the Company's equipment during the construction of the project, for the operation and maintenance of the facility once it begins operation, or both. These commercial arrangements do not require the Company to

commit to any funding for working capital or any other requirements of the joint venture company. As a result, the Company's exposure with respect to its joint ventures is typically limited to its debt and equity investments in the joint venture entity, the fulfillment of any contractual obligations it has to the joint venture entity and the accounts receivable owing to the Company from the joint venture entity.

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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. In 2000, the Company acquired 200 ordinary shares of Desalcott for $10 million and loaned $10 million to Hafeez Karamath Engineering Services Ltd. ("HKES"), the founder of Desalcott and promoter of the Trinidad desalination project, to enable HKES to acquire an additional 200 ordinary shares of Desalcott. Prior to those investments, HKES owned 100 ordinary shares of Desalcott. As a result, the Company currently owns a 40% equity interest in Desalcott, and HKES currently owns a 60% equity interest in Desalcott. The Company records 100% of any net loss and 40% of any net income reported by Desalcott. In periods in which Desalcott has an accumulated loss (as opposed to retained earnings), the Company records 100% of any net income of Desalcott up to the amount of Desalcott's accumulated loss, and 40% of any net income thereafter.

The Company's $10 million loan to HKES is included in long-term notes receivable on the Company's consolidated balance sheets. The loan bears interest at a rate equal to 2% above LIBOR, with interest payable starting October 25, 2002 and every six months thereafter and at maturity. Prior to maturity, however, accrued interest payments (as well as principal payments) are payable only to the extent dividends or other distributions are paid by Desalcott on the ordinary shares of Desalcott owned by HKES and pledged to the Company. Principal repayment is due in 14 equal installments commencing on April 25, 2004 and continuing semiannually thereafter. The loan matures and is payable in full on April 25, 2011. The loan is secured by a security interest in the shares of Desalcott owned by HKES and purchased with the borrowed funds, which is subordinate to the security interest in those shares in favor of the Trinidad bank that provided the construction financing for Desalcott. In addition, any dividends or other distributions paid by Desalcott to HKES must be applied to loan payments to the Company.

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 is obligated 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 the Company is obligated to lend to Desalcott) have not provided 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 Desalcott's obligations at March 31, 2002 and September 30, 2002 was approximately $18.8 million and $24.2 million, respectively, payable to the Company's Trinidad subsidiary for equipment and services purchased in connection with the construction of the facility. The Company currently intends to convert $10 million of this amount into a loan to Desalcott to satisfy the Company's loan commitment described above. The terms of this loan are currently being negotiated with Desalcott. The Company currently anticipates that Desalcott will pay its remaining outstanding obligations to the Company's subsidiary partially out of cash flow from the sale of water and from the proceeds from new long-term

debt financing. Desalcott has received proposals for new long-term debt financing, including a term sheet and a draft term loan agreement from the Trinidad bank which provided the bridge loan, which it anticipates completing around year-end. Such new long-term debt financing may not be completed on terms acceptable to Desalcott, or at all. Moreover, although the Trinidad bank that made the bridge loan to Desalcott has not required repayment of the bridge loan, which matured on September 1, 2002, pending completion of the long-term debt financing, there can be no assurance that the bank will not exercise its rights and foreclose on its collateral, in which event the Company's equity investment in, and receivable from, Desalcott as well as the loan receivable from HKES would be at risk.

During 2001, the Company acquired a 25% equity 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 a wastewater reuse facility in Kuwait. 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." At March 31, 2002 and September 30, 2002, the Company had invested a total of $1.5 million and $1.6 million,



respectively, in UDC as equity contributions and subordinated debt. The Company is committed to make additional contributions of equity or subordinated debt to UDC of $15.9 million over a two to three year period.

The Company entered into agreements with Kibbutz Ma'agan Micha'el, an Israeli cooperative society, and I.P.P.S. Infrastructure Enterprises Ltd., an Israeli corporation, for the establishment of Magan Desalination Ltd. ("MDL") as an Israeli project company in which the Company has a 49% equity interest. In August 2002, MDL entered into a concession contract with a state-sponsored water company for the construction, ownership and operation of a brackish water desalination facility in Israel. At March 31, 2002 and September 30, 2002, the Company had made a nominal equity investment in MDL, and had deferred costs of approximately $0.5 million and $0.7 million, respectively, relating to the design and development work on the project. The Company currently anticipates that it will invest approximately $1 million in MDL for its 49% equity interest. MDL is currently seeking approximately $7.7 million of debt financing for the project. If MDL is unable to obtain such debt financing, the Company would expense all its deferred costs relating to the project but would incur no other liability, inasmuch as no performance bond has been issued for the project.

In January 2002, the Company entered into agreements with Baran Group Ltd. and Dor Chemicals Ltd., both Israeli corporations, giving the Company the right to a one-third ownership interest in an Israeli project company, Carmel Desalination Ltd. ("CDL"). On October 28, 2002, CDL was awarded a concession agreement by the Israeli Water Desalination Agency (established by the Ministry of Finance and the Ministry of Infrastructure) for the construction, ownership and operation of a major seawater desalination facility in Israel. At September 30, 2002, the Company had not yet made any equity investment in CDL, and had deferred costs of approximately $0.3 million relating to the engineering design and development work on the project. No costs had been deferred at March 31, 2002. If CDL obtains long-term project financing, the Company's total equity investment to be made in CDL would be approximately $8 million. The timing of such investment will depend upon the terms of the long-term financing agreement. Although the Company currently anticipates that CDL will obtain long-term financing for the project by the required date in April 2003, such financing may not be obtained.

If CDL is unable to obtain such financing, the Company would expense all its deferred costs relating to the project and any investment the Company may have made in CDL (estimated to be approximately $0.8 million by the time of the closing of the long-term financing), and could incur its one-third proportionate share ($2.5 million) of liability under a $7.5 million performance bond issued on behalf of CDL.

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.

The Company has an unsecured domestic revolving credit facility with Fleet National Bank which expires in March 2003. Under this credit facility, the Company may borrow up to $30 million. The Company also maintains other domestic and international unsecured credit facilities under which the Company may borrow up to an aggregate of $6.0 million. At March 31, 2002, the Company's total borrowings outstanding under all of its existing credit facilities were $1.0 million.

In the normal course of business, the Company issues letters of credit to customers, vendors and lending institutions as guarantees for payment, performance or both under various commercial contracts into which it enters. Bid bonds are also sometimes issued by the Company as security for the Company's commitment to proceed with a project if it is the successful bidder. Performance bonds are typically issued for the benefit of the Company's customers as financial security for the completion or performance by the Company of its contractual obligations under certain commercial contracts. These instruments



are not reflected on the Company's balance sheet as a liability because they will not result in a liability to the Company unless the Company fails to perform the contractual obligations which are secured by the corresponding instrument. In the past, the Company has not incurred any significant liability or expense as a result of the use of these instruments.

The Company believes that its future capital requirements will depend on a number of factors, including the amount of cash generated from operations and its capital commitments to new "own and operate" projects, either directly or through joint venture entities, that the Company may be successful in obtaining. The Company believes that its existing cash and cash equivalents, cash generated from operations, lines of credit and foreign exchange facilities will be sufficient to fund its capital expenditures and working capital requirements at least through the end of 2003, based on its current business plans and projections.

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 May 2002, the 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, the 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 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
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Certain statements contained in this report, including, without limitation, statements regarding expectations as to the Company's future results of operations, statements in the "Notes to the Consolidated Financial Statements" and "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 are neither promises or guarantees but involve 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. 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, as well as overall economic and business conditions; competitive factors, such as acceptance of new products and pricing pressures and competition from companies larger than the Company; risk of nonpayment of accounts receivable, including those from affiliated companies; risks associated with foreign operations; risks associated with joint venture entities, including their respective abilities to arrange for necessary long-term project financing;

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"; fluctuations in the Company's quarterly results; and other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission. Readers should not place undue reliance on any such forward looking statements, which speak only as of the date they are made, and the Company disclaims any obligation to update, supplement or modify such statements in the event the facts, circumstances or assumptions underlying the statements change, or otherwise.

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 option contracts with the intent of offsetting the foreign exchange risk associated with forecasted cash flows related to an ongoing project. These option contracts were not entered into for trading purposes. In accordance with the restrictions set forth in SFAS 133, the contracts do not qualify for hedge accounting treatment. At March 31, 2002, the fair market value of these option contracts were recorded as a liability of $1.4 million in the "Other current liabilities" section of the Consolidated Balance Sheets. End-of-period changes in the market value of the option contracts are reflected in the "Selling, general and administrative" expenses in the Consolidated Statements of Operations. These U.S. dollar/euro option contracts were terminated in the second quarter of 2002. The Company had no other foreign exchange option contracts outstanding at March 31, 2002.

The Company from time to time enters into foreign exchange contracts to hedge certain operational and balance sheet expenses against changes in foreign currency exchange rates. No foreign exchange contracts (other than the option contracts described above) were outstanding at March 31, 2002 or 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 March 31, 2002, the Company had $1.9 million of short-term debt and $10.2 million of long-term debt outstanding. A 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 $1.9 and $0.1 million for the three months ended March 31, 2002 and March 31, 2001, respectively. 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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1* - 1997 Stock Incentive Plan, as amended through May 8, 2002 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002).

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*Previously filed and incorporated herein by reference.

(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 March 31, 2002. The report on Form 8-K, dated January 15, 2002, reported under Item 2 (Acquisition or Disposition of Assets) the completion of the sale by the Company of its bottled water business in the United States, United Kingdom and France to affiliates of Nestle S.A.



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: December 4, 2002 By: /s/Arthur L. Goldstein

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

Date: December 4, 2002 By: /s/Daniel M. Kuzmak

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Daniel M. Kuzmak

Vice President and Chief Financial Officer
(principal financial officer)



CERTIFICATIONS

I, Arthur L. Goldstein, certify that:

1. I have reviewed this Amendment No. 1 to quarterly report on Form 10-Q of Ionics, Incorporated;
2. Based on my knowledge, this Amendment No. 1 to quarterly report on Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1 to quarterly report on Form 10-Q;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to quarterly report on Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Amendment No. 1 to quarterly report on Form 10-Q.

Date: December 4, 2002

/s/Arthur L. Goldstein
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Arthur L. Goldstein
Chairman and Chief Executive Officer

I, Daniel M. Kuzmak, certify that:

1. I have reviewed this Amendment No. 1 to quarterly report on Form 10-Q of Ionics, Incorporated;
2. Based on my knowledge, this Amendment No. 1 to quarterly report on Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1 to quarterly report on Form 10-Q;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to quarterly report on Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Amendment No. 1 to quarterly report on Form 10-Q.

Date: December 4, 2002

/s/Daniel M. Kuzmak
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Daniel M. Kuzmak
Vice President and Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 10.1* | 1997 Stock Incentive Plan, as amended through May 8, 2002 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002). |

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*Previously filed and incorporated herein by reference.