

Edgar Filing: IONICS INC - Form 11-K

IONICS INC
Form 11-K
June 28, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to: _____

Commission File Number: 1-7211

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

IONICS SECTION 401(k) STOCK SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Ionics, Incorporated
65 Grove Street
Watertown, MA 02472

Page -1-

REQUIRED INFORMATION

A. Financial Statements and Schedule:

Independent Auditors' Report

Financial Statements:

Statements of Net Assets Available for Benefits at December 31, 2003 and 2002

Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2003

Edgar Filing: IONICS INC - Form 11-K

Notes to Financial Statements

Supplemental Schedules:

Schedule of Assets Held for Investment Purposes at December 31, 2003

B. Exhibits 12

23.1 Consent of Independent Registered Public Accounting Firm

Page -2-

SIGNATURES

Ionics Section 401(k) Stock Savings Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

IONICS SECTION 401(k)
STOCK SAVINGS PLAN

Date: June 28, 2004

By: /s/Daniel M. Kuzmak

Daniel M. Kuzmak, Member
Plan Administrative Committee

Page -3-

INDEPENDENT AUDITORS' REPORT

Administrators
Ionics Section 401(k) Stock Savings Plan
Watertown, Massachusetts

We have audited the accompanying statements of net assets available for benefits of the Ionics Section 401(k) Stock Savings Plan (the Plan) as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the plan administrator. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

Edgar Filing: IONICS INC - Form 11-K

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002 and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ BELANGER & COMPANY, P.C.

 BELANGER & COMPANY, P.C.
 CERTIFIED PUBLIC ACCOUNTANTS

Chelmsford, Massachusetts
 June 2, 2004

Page -4-

IONICS SECTION 401(k) STOCK SAVINGS PLAN
 STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | December 31, ----- | |
|-----------------------------------|-----------------------|-----------------------|
| | 2003 ---- | 2002 ---- |
| Assets: | | |
| Investments (see Note C) | \$31,120,078 | \$23,312,269 |
| Receivables: | | |
| Employer contribution | 42,535 | 51,917 |
| Participant contributions | 226,780 | 221,992 |
| Total receivables | 269,315 | 273,909 |
| Total assets | 31,389,393 | 23,586,178 |
| Liabilities | 0 | 0 |
| Net assets available for benefits | \$31,389,393 ===== | \$23,586,178 ===== |

Edgar Filing: IONICS INC - Form 11-K

See accompanying notes to the financial statements.

Page -5-

IONICS SECTION 401(k) STOCK SAVINGS PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | Year Ended December 31, 2003 |
|--|---------------------------------|
| Additions: | |
| Additions to net assets attributed to: | |
| Investment income: | |
| Net appreciation in fair value of investments (see Note C) | \$ 7,138,609 |
| Interest | 132,259 |
| Dividends | 113,452 |
| | ----- |
| | 7,384,320 |
| | ----- |
| Contributions: | |
| Participant | 2,972,015 |
| Employer | 599,852 |
| | ----- |
| | 3,571,867 |
| | ----- |
| Total additions | 10,956,187 |
| Deductions: | |
| Withdrawals by and distributions to participants | (3,152,972) |
| | ----- |
| Net increase | 7,803,215 |
| Net assets available for benefits: | |
| Beginning of year | 23,586,178 |
| | ----- |
| End of year | \$ 31,389,393 |
| | ===== |

See accompanying notes to the financial statements.

Page -6-

Edgar Filing: IONICS INC - Form 11-K

IONICS SECTION 401(k) STOCK SAVINGS PLAN NOTES TO FINANCIAL STATEMENTS

A. Description of Plan

The following description of the Ionics, Incorporated and domestic subsidiaries ("Company") 401(k) Plan (Plan) provides only general information. Participations should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. General. The Plan is a defined contribution plan covering all permanent employees of the Company working at least 20 hours per week. Employees become eligible to participate effective as of the first day of the month coincident with or next following the employee's date of hire.
2. Contributions. Each year, participants may contribute up to 12 percent of pre-tax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. During 2003, the investment options were changed with some funds being replaced and other funds added, bringing mutual funds offered from seven to eleven. Company stock is also offered as an option. The Company contributes 50% of the first 6 percent of base compensation that a participant contributes to the Company stock portion of the Plan. The matching Company contribution is invested directly in Ionics, Incorporated common stock. Contributions are subject to certain limitations.
3. Participant Accounts. Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings. Allocations are based on total investment earnings and average participant investment balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. Vesting. Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's contribution portion of their accounts is based on years of continuous service ranging from 33 1/3% after two years to 100% after four years.
5. Participant Loans. Participants may borrow from their fund accounts a minimum of \$1,000, up to a maximum of \$50,000 or 50 percent of their account balance, whichever is less. The loans are secured by the balance in the participant's account and bear interest rates that are commensurate with local prevailing rates as determined by the Plan administrator.
6. Payment of Benefits. On termination of service due to death, disability, or retirement, a participant may elect to receive a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over the life expectancy of the Participant (or the joint life expectancy of the Participant and spouse or beneficiary).
7. Plan Expenses. The Plan provides that the Company shall pay all expenses of the Plan and its administration.

B. Summary of Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investment of the Plan in Ionics, Incorporated Common Stock is stated at the last sales price on December 31 as reported on the New York Stock Exchange. Shares of mutual funds are valued at the Net Asset Value of shares held by the Plan at year-end.

Purchase and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

C. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets.

| | December 31, | |
|---|-----------------|----------------|
| | 2003 | 2002 |
| Ionics, Incorporated common stock, 529,914 and 493,893 shares, respectively | \$ 16,877,691 * | \$ 11,260,760* |
| Puritan Fund, 118,828 shares | N/A | 1,876,296 |
| Contrafund, 99,891 shares | N/A | 3,866,793 |
| Ionics Stable Value Fund | 1,972,930 | 1,786,105 |
| Mainstay Balanced Fund, 126,880 shares | 3,102,227 | N/A |
| Federated Capital Appreciation, 194,913 shares | 4,652,571 | N/A |
| Oppenheimer Global Fund, 29,837 shares | 1,536,590 | N/A |

*Nonparticipant-directed

During 2003, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$7,138,609 as follows:

| | |
|-----------------------------------|-------------|
| Mutual funds | \$2,086,394 |
| Ionics, Incorporated common stock | 5,052,215 |

Edgar Filing: IONICS INC - Form 11-K

\$7,138,609
 =====

D. Nonparticipant-Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

Page -8-

| | December 31, | |
|-------------------------------|---------------|------------------------|
| | 2003 | 2002 |
| | ----- | ----- |
| Net assets: | | |
| Common stock | \$ 16,877,761 | \$ 11,260,76 |
| | ===== | ===== |
| | | Year Ended 12/31/03 |
| | | ----- |
| Changes in net assets: | | |
| Contributions | | \$ 1,421,69 |
| Net appreciation | | 5,052,21 |
| Benefits paid to participants | | (856,904) |
| | | ----- |
| | | \$ 5,617,00 |
| | | ===== |

E. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

F. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2003 and 2002 to Form 5500:

| | 2003 | 2002 |
|--|---------------|---------------|
| | ----- | ----- |
| Net assets available for benefits per the financial statements | \$ 31,389,393 | \$ 23,586,178 |
| Amounts allocated to withdrawing participants | (378,916) | (4,115) |
| | ----- | ----- |

Edgar Filing: IONICS INC - Form 11-K

| | | |
|---|---------------|---------------|
| Net assets available for benefits per the Form 5500 | \$ 31,010,477 | \$ 23,582,063 |
| | ===== | ===== |

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2003 to Form 5500:

| | |
|--|--------------|
| Distributions to participants per the financial statements | \$ 3,152,972 |
| Add: Amounts allocated to withdrawing participants at December 31, 2003 | 378,916 |
| Less: Amounts allocated to withdrawing participants at December 31, 2002 | (4,115) |
| | ----- |
| Benefits paid to participants per Form 5500 | \$ 3,527,773 |
| | ===== |

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31st, but not yet paid as of that date.

Page -9-

G. Tax Status

The Plan was amended and restated effective on January 1, 2002 and further amended on November 18, 2002 and December 23, 2002. The Internal Revenue Service has determined and informed the Company by a letter dated April 20, 2004, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Management believes that the Plan is currently being operated in compliance with the requirements of the IRC.

Page -10-

Attachment to Form 5500
Schedule H, Line 4 I
EIN: 04-2068530
Plan Number 003

Schedule I

IONICS SECTION 401(k) STOCK SAVINGS PLAN
SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES

Edgar Filing: IONICS INC - Form 11-K

December 31, 2003

| Description of Investment ----- | Face Amount Shares or Rate ----- | Cost ----- | Curre Valu ----- |
|---|--|---------------------------------|---------------------------|
| Ionics, Incorporated Common Stock | 529,914 | \$ 14,025,036 | \$ 16,8 |
| Fidelity Advisor: | | | |
| Dividend Growth | 18,748 | 194,828 | 2 |
| Diversified International | 5,505 | 79,295 | |
| Mainstay Institutional: | | | |
| Indexed Bond | 45,819 | 497,662 | 5 |
| S&P 500 Index Fund | 32,833 | 866,716 | 8 |
| Balanced Fund | 126,880 | 2,861,694 | 3,1 |
| Money Market | | 215,123 | 2 |
| AIM Mid Cap Core Equity Fund | 3,423 | 85,081 | |
| PIMCO Total Return Fund | 5,555 | 59,846 | |
| Federated Capital Appreciation | 194,913 | 4,188,967 | 4,6 |
| Strong Advisor Small Cap Value | 8,053 | 196,780 | 2 |
| Oppenheimr Global Fund | 29,837 | 1,262,564 | 1,5 |
| Ionics Stable Value Fund | | 1,972,930 | 1,9 |
| Participant Loans (rate of interest 5.50% to 11.00%) | | 0 | 7 |
| | | ----- \$ 26,506,522 ===== | ----- \$ 31,1 ===== |

See accompanying notes to the financial statements.

Page -11-

Exhibit Index

| Exhibit No. ----- | Description ----- |
|----------------------|-------------------------------------|
| 23.1 | Consent of Belanger & Company, P.C. |

Page -12-

Edgar Filing: IONICS INC - Form 11-K

Exhibit 23.1

BELANGER & COMPANY, P.C.

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
6 Courthouse Lane
Chelmsford, Massachusetts 01924
(978) 458-3700
Fax (978) 458-1574

Exhibit No. 23.1 to Annual Report on Form 11-K
of Ionics, Incorporated 401(k) Stock Savings Plan
for the year ended December 31, 2003

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of the Ionics Section 401(k) Stock Savings Plan on Form S-8 (Registration Nos. 33-2092 and 333-109103) of our report dated June 2, 2004 on our audits of the financial statements of the Ionics Section 401(k) Stock Savings Plan as of December 31, 2003 and 2002, which report is included in this Annual Report on Form 11-K of the Plan.

/S/BELANGER & COMPANY, P.C.

BELANGER & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Chelmsford, Massachusetts
June 28, 2004