IONICS INC
Form 10-Q
November 13, 2001

[LOGO] IONICS

Worldwide Headquarters
Ionics, Incorporated
65 Grove Street
Watertown, Massachusetts
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November 13, 2001

Securities and Exchange Commission
Filing Desk - Room 1004
450 Fifth Street, N.W.
Washington, DC 20549

Re: Ionics, Incorporated (Commission File No. 1-7211) - filing of Form 10-Q for quarter ended September 30, 2001, Account No. 0000052466

Ladies and Gentlemen:

I enclose via electronic filing pursuant to the Electronic Data Gathering, Analysis and Retrieval ("EDGAR") System on behalf of Ionics, Incorporated (the "Company"), the Form 10-Q for the quarter ended September 30, 2001. Please acknowledge receipt of this electronic filing by return email to the Company's email address: plynes@ionics.com.

A manually signed copy of the Form 10-Q will be kept on file at the offices of the Company.

If you have any questions or require further information, please contact the undersigned at 617-926-2510, ext. 450.

Very truly yours,

/s/Stephen Korn
Stephen Korn
Vice President and
General Counsel

Enc.

cc: Arthur L. Goldstein, Chairman and Chief Executive Officer
Daniel M. Kuzmak, Vice President, Finance and Chief Financial Officer

FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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

For the quarterly period ended

September 30, 2001

or

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

For the transition period from ______ to ______

Commission File Number: 1-7211

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

Massachusetts	04-2068530
(State of incorporation)	(I.R.S. Employer Identification Number)
65 Grove Street Watertown, Massachusetts	02472-2882
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (617) 926-2500

Former name, former address and former fiscal year, if changed since last report: None

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

Yes X No

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

At October 19, 2001 the Company had 17,467,242 shares of Common Stock, par value $1 per share, outstanding.

IONICS, INCORPORATED

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PART I - FINANCIAL INFORMATION

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

	Three months ended September 30, 2001	Three months ended September 30, 2000
Revenue:		
Equipment Business Group	$ 51,182	$ 48,188
Ultrapure Water Group	26,623	40,528
Consumer Water Group	34,455	28,389
Instrument Business Group	6,033	7,781
	118,293	124,886
Costs and expenses:		
Cost of sales of Equipment Business Group	40,291	37,107
Cost of sales of Ultrapure Water Group	21,628	33,190
Cost of sales of Consumer Water Group	19,400	16,993
Cost of sales of Instrument Business Group	3,272	3,658
Research and development	1,496	1,833
Selling, general and administrative	25,655	26,415
	111,742	119,196
Income from operations	6,551	5,690
Interest income	176	265
Interest expense	(1,221)	(1,270)

Equity income	876	289
Income before income taxes and minority interest	6,382	4,974
Provision for income taxes	2,170	1,690
Income before minority interest	4,212	3,284
Minority interest in (earnings) losses	(1)	(358)
Net income	$ 4,211	$ 2,926
Basic earnings per share	$ 0.24	$ 0.18
Diluted earnings per share	$ 0.24	$ 0.18
Shares used in basic earnings per share calculations	17,449	16,234
Shares used in diluted earnings per share calculations	17,626	16,519

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

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

	September 30, 2001
Current assets:	
Cash and cash equivalents	$ 23,025
Short-term investments	602
Notes receivable, current	5,082
Accounts receivable	156,146
Receivables from affiliated companies	1,640
Inventories:	
Raw materials	25,685
Work in process	10,558
Finished goods	7,175

	43,418
Other current assets	17,144
Deferred income taxes	12,749
Total current assets	259,806
Notes receivable, long-term	22,945
Investments in affiliated companies	24,894
Property, plant and equipment:	
Land	8,617
Buildings	49,028
Machinery and equipment	323,863
Other, including furniture, fixtures and vehicles	52,663
	434,171
Less accumulated depreciation	(212,261)
	221,910
Other assets	57,389
Total assets	$ 586,944
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable and current portion of long-term debt	$ 60,995
Accounts payable	41,002
Customer deposits	3,318
Accrued commissions	2,538
Accrued expenses	38,965
Total current liabilities	146,818
Long-term debt and notes payable	10,427
Deferred income taxes	30,962
Other liabilities	6,088
Commitments and contingencies	
Stockholders' equity:	
Common stock, par value $1, authorized shares: 55,000,000; issued and outstanding: 17,467,242 in 2001 and 16,369,029 in 2000	17,467
Additional paid-in capital	187,703
Retained earnings	208,991
Accumulated other comprehensive loss	(21,512)
Total stockholders' equity	392,649
Total liabilities and stockholders' equity	$ 586,944

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

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

	Nine Sept
Operating activities:	2001
Net income	$ 11,375
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	26,963
Provision for losses on accounts and notes receivable	2,255
Equity in earnings of affiliates	(1,906)
Compensation expense on restricted stock awards	-
Changes in assets and liabilities:	
Notes receivable	(5,988)
Accounts receivable	2,438
Inventories	(9,065)
Other current assets	(819)
Investments in affiliate	903
Accounts payable and accrued expenses	(11,708)
Income taxes	1,656
Other	251
Net cash provided (used) by operating activities	16,355
Investing activities:	
Additions to property, plant and equipment	(27,394)
Disposals of property, plant and equipment	1,617
Additional investments in affiliates	(5,479)
Acquisitions, net of cash acquired	-
Sale (purchase) of short-term investments	425
Net cash used by investing activities	(30,831)
Financing activities:	
Principal payments on current debt	(88,569)
Proceeds from borrowings of current debt	75,137
Principal payments on long-term debt	(1,158)
Proceeds from borrowings of long-term debt	250
Proceeds from issuance of common stock	21,814
Proceeds from stock option plans	4,872

Net cash provided by financing activities	12,346
Effect of exchange rate changes on cash	(342)
Net change in cash and cash equivalents	(2,472)
Cash and cash equivalents at beginning of period	25,497
Cash and cash equivalents at end of period	$ 23,025

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

IONICS, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

In the opinion of the management of Ionics, Incorporated (the "Company"), all adjustments have been made that are necessary for a fair statement of the consolidated financial position of the Company, the consolidated results of its operations and the consolidated cash flows for each period presented. The consolidated results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These financial statements should be read in conjunction with the Company's 2000 Annual Report as filed on Form 10-K with the Securities and Exchange Commission. Other than noted below, there have been no significant changes in the information reported in those Notes, other than from the normal business activities of the Company, and there have been no changes which would, in the opinion of management, have a materially adverse effect upon the Company. Certain prior year amounts have been reclassified to conform to the current year presentation with no impact on net income.

2. Earnings per share (EPS) calculations

(Amounts in thousands, except per share amou

For the three months ended September 30,

	2001			2000
	Net Income	Shares	Per Share Amount	Net Income

Income available to common stockholders	$ 4,211	17,449	$ 0.24	$ 2,926
Effect of dilutive stock options	-	177	-	-
Diluted EPS	$ 4,211	17,626	$ 0.24	$ 2,926

	For the nine months ended Septembe			
	2001			2000
	Net Income	Shares	Per Share Amount	Net Income
Basic EPS				
Income available to common stockholders	$ 11,375	16,983	$ 0.67	$ 10,703
Effect of dilutive stock options	-	149	(0.01)	-
Diluted EPS	$ 11,375	17,132	$ 0.66	$ 10,703

The effect of dilutive stock options excludes those stock options for which the impact would have been antidilutive based on the exercise price of the options. The number of options that were antidilutive for the three months ended September 30, 2001 and 2000 was 1,416,317 and 731,750, respectively. The number of options that were antidilutive for the nine months ended September 30, 2001 and 2000 was 1,448,317 and 1,600,084, respectively.

3. Comprehensive Income

The table below sets forth comprehensive income as defined by Statement of Financial Accounting Standard No. 130 for the three month and nine month periods ended September 30, 2001 and 2000, respectively.

(Amounts in thousands)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months End September 30, 2001
Net income	$ 4,211	$ 2,926	$ 11,375
Other comprehensive income (loss), net of tax:			
Translation adjustments	2,810	(3,580)	(2,274)
Comprehensive income	$ 7,021	$ (654)	$ 9,101

4. Segment Information

The following table summarizes the Company's operations by the four business group segments and "Corporate" (Corporate includes the elimination of intersegment transfers).

	For the three months ended September 3			
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group
(Amounts in thousands)				
Revenue - unaffiliated customers	$ 51,182	$ 26,623	$ 34,455	$ 6,033
Inter-segment transfers	374	470	-	334
Gross profit	10,891	4,995	15,055	2,761

	For the three months ended September 3			
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group
(Amounts in thousands)				
Revenue - unaffiliated customers	$ 48,188	$ 40,528	$ 28,389	$ 7,781
Inter-segment transfers	4,815	1,021	-	444
Gross profit	11,081	7,338	11,396	4,123

(Amounts in thousands)	For the nine months ended September 30			
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group
Revenue - unaffiliated customers	$154,933	$ 85,685	$ 94,047	$ 20,264
Inter-segment transfers	2,361	2,436	-	1,332
Gross profit	34,691	18,117	41,118	10,563

(Amounts in thousands)	For the nine months ended September 30			
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group
Revenue - unaffiliated customers	$131,949	$ 94,832	$ 81,741	$ 21,963
Inter-segment transfers	6,853	2,585	-	1,816
Gross profit	32,358	18,399	34,148	12,266

5. Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. Implementation of SFAS No. 141 is required for fiscal years beginning after December 15, 2001.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of assets (but not those acquired in a business combination) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. The provisions of this Statement are required to be applied with fiscal years beginning after December 15, 2001. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle.

SFAS Nos. 141 and 142 were issued recently, and consequently the Company has not yet determined what effect, if any, the adoption of SFAS Nos. 141 and 142 will have on the Company's financial position or results of operations.

In August 2001, the FASB issued 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. Ionics is currently assessing but has not yet determined the impact of SFAS No. 143 on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." This accounting standard, which is effective for fiscal years beginning after December 31, 2001, requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The effect of adopting SFAS No. 144 on the Company's financial position and results of operations has not yet been determined.

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

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2001 with the Three and Nine Months Ended September 30, 2000

Revenues for the third quarter of 2001 decreased 5.3% while net income increased 43.9%, compared to the results of the third quarter of 2000. Revenues for the nine-month period of 2001 increased 7.4%, and net income increased by 6.3% from the comparable nine-month period of 2000. Gross profit was $33.7 million in the third quarter of 2001 compared to $33.9 million in the third quarter of 2000. For the nine-month period of 2001, gross profit was $104.5 million compared to $97.2 million for the nine-month period of 2000. Gross profit increased in the third quarter and nine-month period of 2001 for the Consumer Water Group (CWG). The Equipment Business Group's (EBG) gross profit decreased in the third quarter of 2001 but increased for the nine-month period in 2001 from the comparable periods in 2000. Gross profit for the Ultrapure Water Group (UWG) and the Instrument Business Group (IBG) decreased in the third quarter and nine-month period of 2001 from the comparable periods in 2000.

Total revenues for the third quarter of 2001 decreased 5.3% to $118.3 million from $124.9 million in 2000. For the third quarter of 2001, revenues were higher in EBG and CWG but lower in UWG and IBG as compared to the same period in 2000. Revenues for the nine-month period of 2001 increased 7.4% to $354.9 million from $330.5 million in the comparable 2000 period. Revenues were higher in both EBG and CWG but lower in UWG and IBG in the nine-month period of 2001, compared to the same period of 2000.

EBG revenues increased $3.0 million, or 6.2%, in the third quarter and increased $23.0 million, or 17.4%, in the nine-month period of 2001 as compared with the same respective periods of 2000. These increases resulted primarily from continuing work on a desalination facility in Trinidad.

UWG revenues decreased $13.9 million, or 34.3%, in the third quarter of 2001 from the third quarter of 2000. This decrease was due primarily to lower revenues from the Company's domestic operations specifically related to the microelectronics industry and, to a lesser extent, lower revenues from the Company's Far East operations. UWG revenues decreased $9.1 million, or 9.6%, in the nine-month period of 2001 compared to the nine-month period of 2000. This decrease was due primarily to lower revenues from the Company's Far East operations.

The revenues of CWG increased $6.1 million, or 21.4%, in the third quarter of 2001 compared to the third quarter of 2000. Similarly, CWG revenues increased $12.3 million, or 15.1%, in the nine-month period of 2001 compared to the nine-month period of 2000. These increases were due to continued growth in both the bottled water business, primarily in the United Kingdom, and home water businesses.

IBG revenues decreased $1.7 million, or 22.5%, in the third quarter of 2001 compared to the third quarter of 2000. Revenues for the nine-month period of 2001 also decreased $1.7 million, or 7.7%, as compared to revenues for the nine-month period of 2000. These decreases in revenue reflect lower instrument sales particularly to the microelectronics industry.

Total cost of sales as a percentage of revenues for the third quarter was 71.5% in 2001 and 72.8% in 2000. For the nine-month period, cost of sales as a percentage of revenues was 70.6% in 2001 and 2000.

Cost of sales as a percentage of revenues increased for EBG and IBG for both the third quarter and nine-month periods of 2001, as compared to the respective periods of 2000. UWG's and CWG's cost of sales as a percentage of revenues decreased in the third quarter and nine-month period of 2001 compared to the third quarter and nine-month period of 2000. EBG's cost of sales percentage

increased to 78.7% and 77.6% in the third quarter and nine-month period of 2001, respectively, as compared to 77.0% and 75.5% in the same respective periods in 2000. The increases in this percentage for EGB primarily reflect a shift in business mix to lower margin capital equipment. IBG's cost of sales percentage increased to 54.2% and 47.9% in the third quarter and nine-month period of 2001, respectively, from 47.0% and 44.2% in the third quarter and nine-month period of 2000, respectively. These increases were due to lower sales volume and unabsorbed manufacturing overhead. UWG's cost of sales as a percentage of revenues decreased to 81.2% and 78.9% in the third quarter and nine-month period of 2001, respectively, as compared to 81.9% and 80.6% in the same respective periods in 2000. These decreases were due primarily to the lower volume of revenues in 2001 as compared to 2000. Cost of sales as a percentage of revenues for CWG decreased to 56.3% in both the third quarter and nine-month period of 2001 from 59.9% and 58.2% in the third quarter and nine-month period of 2000, respectively. The decreases for both periods are due to increased sales volume, particularly in the United Kingdom operations, and overall improved operations. The nine-month period decrease also is attributable to a gain recognized on the sale of certain bottled water assets in the second quarter of 2001.

Operating expenses, consisting of Research and Development expense and Selling, General and Administrative expense, as a percentage of revenues increased during the third quarter of 2001 to 23.0% from 22.6% in 2000. For the nine-month period, operating expenses as a percentage of revenues increased to 24.4% in 2001 from 23.9% in 2000. The increase in operating expenses as a percentage of revenues primarily reflected the decrease in UWG revenue, which generally has lower selling costs relative to revenues than do CWG and IBG, and the higher revenue growth in CWG, which generally has higher selling costs relative to revenues than do EBG and UWG.

Interest income of $0.2 million for the third quarter of 2001 decreased from $0.3 million for the third quarter of 2000. Interest income of $1.1 million for the nine-month period of 2001 increased from $0.9 million for the nine-month period of 2000. Interest expense of $1.2 million for the third quarter of 2001 remained relatively flat with the third quarter of 2000 interest expense of $1.3 million. Interest expense of $4.3 million in the nine-month period of 2001, as compared to interest expense of $3.2 million in the nine-month period of 2000, reflects higher average borrowings in the nine-month period of 2001 than in the same period of 2000.

Equity income increased to $0.9 million for the third quarter of 2001 from $0.3 million for the third quarter of 2000. Equity income increased to $1.9 million for the nine-month period of 2001 from $1.3 million for the nine-month period of 2000. These increases are primarily the result of higher equity income from a Mexican investment.

The Company's effective tax rate was 34% for both the third quarter and the nine-month period of 2001, as well as for the same respective periods in 2000.

Financial Condition

Working capital increased $27.6 million during the first nine months of 2001, and the Company's current ratio also increased to 1.8 at September 30, 2001 from 1.5 at December 31, 2000. At September 30, 2001, the Company had $23.0 million in cash and cash equivalents, a decrease of $2.5 million from December 31, 2000. Notes payable and current portion of long-term debt decreased by $14.1 million, and accounts payable decreased by $15.0 million. Accounts receivable decreased by $6.6 million while inventory increased by $8.7 million. Notes receivable, long-term and investments in affiliated companies increased by $5.4 million and $6.6 million, respectively.

Cash provided by operating activities totaled $16.4 million for the nine-month period of 2001. The primary uses of cash for investing purposes were additions to property, plant and equipment. Significant capital expenditures were made for "own and operate" facilities and to expand the Company's bottled water operations. Net cash provided by financing activities, $12.3 million for the nine-month period of 2001, was primarily from short-term borrowings and the issuance of common stock.

During 2001, construction has been continuing on the Trinidad desalination facility owned by Desalination Company of Trinidad and Tobago Ltd. (Desalcott), in which the Company has a 40% equity interest. The Company has loaned $10 million to the 60% equity owner, Hafeez Karamath Engineering Services Ltd. (HKES), as the source of HKES' equity contribution, in addition to the $10 million contributed by the Company for its 40% equity interest. Desalcott has entered into a "bridge loan" agreement with a Trinidad bank providing $60 million in construction financing. In November 2001, the Bank has increased the amount of the bridge loan to Desalcott from U.S. $60 million to U.S. $77.7 million, subject to certain conditions, including the Company's making a loan of $10 million to Desalcott. Based on current estimates, the augmented bridge loan plus the $20 million in equity provided to Desalcott, and the $10 million loan to be made by the Company should provide sufficient funds to complete construction of the project. In addition, Desalcott has accepted an offer to provide long-term financing from the same bank, subject to certain conditions. The proceeds from the long-term financing as currently proposed should be sufficient to repay the bridge loan and the $10 million loan to be made by the Company to Desalcott.

The Company completed a private placement of common stock to Fidelity Management & Research Company (Fidelity), on behalf of funds and accounts managed by Fidelity, in April 2001. 875,000 shares were sold at a price of $24.93 per share, and the total proceeds to the Company were approximately $21.8 million. The proceeds were used to reduce short-term borrowings. The Company filed a registration statement with the Securities and Exchange Commission covering the resale of these shares. The registration statement became effective on June 7, 2001.

On June 29, 2001, the Company entered into a Third Amended and Restated Revolving Credit Agreement with Fleet National Bank (as lender and agent) and Bank of America, N.A., the Chase Manhattan Bank, and Mellon Bank, N.A. (the "Credit Agreement"). Under the terms of the Credit Agreement, which supercedes a prior loan agreement with Fleet National Bank, the Company may borrow up to $90 million, subject to terms and financial covenants typical to such loan agreements.

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

Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. Implementation of SFAS No. 141 is required for fiscal years beginning after December 15, 2001.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of assets (but not those acquired in a business combination) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. The provisions of this Statement are required to be applied with fiscal years beginning after December 15, 2001. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle.

SFAS Nos. 141 and 142 were issued recently, and consequently the Company has not yet determined what effect, if any, the adoption of SFAS Nos. 141 and 142 will have on the Company's financial position or results of operations.

In August 2001, the FASB issued 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. Ionics is currently assessing but has not yet determined the impact of SFAS No. 143 on its financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." This accounting standard, which is effective for fiscal years beginning after December 31, 2001, requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The effect of adopting SFAS No. 144 on the Company's financial position and results of operations has not yet been determined.

Quantitative and Qualitative Disclosures about Market Risk

Derivative Instruments and Market Risk

There has been no material change in the information reported in the Company's 2000 Annual Report as filed on Form 10-K with the Securities and Exchange Commission with respect to these risk matters.

Forward-Looking Information

Safe Harbor Statement under Private Securities Litigation Reform Act of 1995

The Company's future results of operations and certain statements contained in this report, including, without limitation, "Management's Discussion and Analysis of Results of Operations and Financial Condition," constitute forward-looking statements. Such statements are based on management's current views and assumptions and involve risks, uncertainties and other factors that could cause actual results to differ materially from management's current expectations. Among these factors are business conditions and the general economy; competitive factors, such as acceptance of new products and price pressures; risk of nonpayment of accounts receivable; risks associated with foreign operations; risks involved in litigation; regulations and laws affecting business in each of the Company's markets; market risk factors, as described above under "Derivative Instruments and Market Risks;" and other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Reports on Form 8-K

No reports on Form8-K were filed with the Securities and Exchange Commission during the quarter ended September 30, 2001.

All other items reportable under Part II have been omitted as inapplicable or because the answer is negative, or because the information was previously reported to the Securities and Exchange Commission.

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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: November 13, 2001

By: /s/Arthur L. Goldstein

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

Date: November 13, 2001

By: /s/Daniel M. Kuzmak

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