

Edgar Filing: IONICS INC - Form 10-Q/A

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

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

For the quarterly period ended June 30, 2002

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-7211

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

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

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

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 checkmark 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 June 30, 2002 the registrant had 17,551,779 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

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to amend its quarterly report on Form 10-Q for the quarterly period ended June 30, 2002 to reflect the restatements of its consolidated financial statements for the three months ended June 30, 2002 and the six months ended June 30, 2002. These restatements were 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 and six months ended June 30, 2002 contained in this Amendment No. 1 to Form 10-Q reflect the effect of these restatements. 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 August 14, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended June 30, 2002. In addition, Item 5 has been added to Part II of this Amendment No. 1 to Form 10-Q. Items 3, 4 and 6 of Part II of this Amendment No. 1 to Form 10-Q are not amended hereby and only reiterate the information previously disclosed under those Items in the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2002, which was filed with the Securities and Exchange Commission on August 14, 2002.

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

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### PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

IONICS, INCORPORATED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(Amounts in thousands, except per share amounts)

	Three months ended June 30,		
	2002	2001	2000
Revenues:	(as restated)		(as restated)
Equipment Business Group	\$ 35,944	\$ 41,708	\$ 41,708
Ultrapure Water Group	25,440	30,818	30,818
Consumer Water Group	8,726	30,189	30,189
Instrument Business Group	6,810	6,443	6,443
Affiliated companies	2,577	4,516	4,516
	79,497	113,674	113,674
Costs and expenses:			
Cost of sales of Equipment Business Group	26,579	31,473	31,473
Cost of sales of Ultrapure Water Group	18,613	24,385	24,385
Cost of sales of Consumer Water Group	4,874	15,496	15,496
Cost of sales of Instrument Business Group	2,584	2,990	2,990
Cost of sales to affiliated companies	2,279	4,382	4,382
Research and development	1,594	1,609	1,609
Selling, general and administrative	21,545	27,580	27,580
	78,068	107,915	107,915
Income from operations	1,429	5,759	5,759
Interest income	868	746	746
Interest expense	(376)	(1,448)	(1,448)
Equity income	782	589	589

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Income before income taxes and minority interest	2,703	5,646	
Provision for income taxes	1,297	1,920	
	-----	-----	-----
Income before minority interest	1,406	3,726	
Minority interest in (earnings) losses	(161)	443	
	-----	-----	-----
Net income	\$ 1,245	\$ 4,169	
	=====	=====	=====
Basic earnings per share	\$ 0.07	\$ 0.24	
	=====	=====	=====
Diluted earnings per share	\$ 0.07	\$ 0.24	
	=====	=====	=====
Shares used in basic earnings per share calculations	17,547	17,100	
	=====	=====	=====
Shares used in diluted earnings per share calculations	17,707	17,183	
	=====	=====	=====

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

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IONICS, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Amounts in thousands, except share and par value amounts)

	June 30, 2002	Decem 2
	-----	-----
ASSETS	(as restated)	
Current assets:		
Cash and cash equivalents	\$ 139,127	
Short-term investments	-	
Notes receivable, current	4,347	
Accounts receivable, net	110,935	
Receivables from affiliated companies	24,320	
Inventories:		
Raw materials	19,410	
Work in process	9,563	
Finished goods	7,095	
	-----	-----
Other current assets	36,068	
Deferred income taxes	11,549	
	-----	-----
Total current assets	342,133	
Notes receivable, long-term	24,497	

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Investments in affiliated companies	22,757
Property, plant and equipment:	
Land	6,382
Buildings	42,176
Machinery and equipment	261,683
Other, including furniture, fixtures and vehicles	30,587
	-----
	340,828
Less accumulated depreciation	168,240
	-----
	172,588
Goodwill	19,215
Deferred income taxes, long-term	12,643
Other assets	9,166
	-----
Total assets	\$ 602,999
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable and current portion of long-term debt	\$ 9,575
Accounts payable	26,005
Customer deposits	4,814
Accrued commissions	1,688
Accrued expenses	47,812
Income taxes payable	24,678
	-----
Total current liabilities	114,572
Long-term debt and notes payable	11,149
Deferred income taxes	37,810
Deferred revenue from affiliated companies	3,508
Other liabilities	3,514
Commitments and contingencies	
Stockholders' equity:	
Common stock, par value \$1, authorized shares: 55,000,000; issued: 17,551,779 in 2002 and 17,477,005 in 2001	17,552
Additional paid-in capital	190,353
Retained earnings	245,061
Accumulated other comprehensive loss	(20,520)
	-----
Total stockholders' equity	432,446
	-----
Total liabilities and stockholders' equity	\$ 602,999
	=====

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

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

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	Six mo Ju
	----- 2002 -----
Operating activities:	(as restated)
Net income	\$ 2,744
Adjustments to reconcile net income to net cash (used in) provided by operating activities:	
Depreciation and amortization	11,240
Amortization of goodwill	-
Provision for losses on accounts and notes receivable	332
Equity in earnings of affiliates	(1,674)
Changes in assets and liabilities:	
Notes receivable	(1,884)
Accounts receivable and receivables from affiliated companies	2,930
Inventories	(2,539)
Other current assets	329
Investments in affiliated companies	1,984
Accounts payable and accrued expenses	(19,939)
Income taxes	(19,652)
Other	(371)
	-----
Net cash (used in) provided by operating activities	(26,500)
	-----
Investing activities:	
Additions to property, plant and equipment	(14,113)
Disposals of property, plant and equipment	546
Additional investments in affiliates	-
Acquisitions, net of cash acquired	(635)
Sale of short-term investments	184
	-----
Net cash used in investing activities	(14,018)
	-----
Financing activities:	
Principal payments on current debt	(53,374)
Proceeds from borrowings of current debt	48,618
Principal payments on long-term debt	(480)
Proceeds from borrowings of long-term debt	1,135
Proceeds from issuance of common stock	60
Proceeds from issuance of stock under stock option plans	1,654
	-----
Net cash (used in) provided by financing activities	(2,387)
	-----
Effect of exchange rate changes on cash	3,749
	-----
Net change in cash and cash equivalents	(39,156)
Cash and cash equivalents at beginning of period	178,283
	-----
Cash and cash equivalents at end of period	\$ 139,127
	=====

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

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## 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 June 30, 2002, the Company recorded adjustments reflecting immaterial corrections to prior year periods which resulted in an increase in net income of approximately \$140,000. Such adjustments were recorded in the financial statements for the three months ended June 30, 2002 as originally reported and as restated.

In addition, Notes 3, 9 and 11 of the Notes to the Consolidated Financial Statements contained herein have been updated to reflect developments which have occurred subsequent to August 14, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended June 30, 2002.

### 2. Restatement of Quarterly Financial Statements

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The Company's consolidated financial statements for the three months ended June 30, 2002 and the six months period ended June 30, 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 June 30, 2002. The following table presents a summary of the impact of the restatements on the Company's consolidated statements of operations for the three and six months ended June 30, 2002:

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(Amounts in thousands, except per share amounts)  
Three months ended June 30, 2002

	As originally reported	As restated
Revenues	\$ 79,321	\$ 79,497
Costs and expenses	77,303	78,068
Income from operations	2,018	1,429
Income before income taxes and minority interest	3,292	2,703
Provision for income taxes	1,119	1,297
Minority interest in earnings	79	161
Net income	2,094	1,245
Basic earnings per share	\$ 0.12	\$ 0.07
Diluted earnings per share	\$ 0.12	\$ 0.07

Six months ended June 30, 2002

	As originally reported	As restated
Revenues	\$ 159,662	\$ 159,502
Costs and expenses	155,639	156,759
Income from operations	4,023	2,743
Income before income taxes and minority interest	6,622	5,342
Provision for income taxes	2,251	2,173
Minority interest in earnings	340	425
Net income	4,031	2,744
Basic earnings per share	\$ 0.23	\$ 0.16
Diluted earnings per share	\$ 0.23	\$ 0.15

"Revenues" and the cost of sales of the Equipment Business Group component of "Costs and expenses" for the three and six months ended June 30, 2002 as shown under the "As restated" columns in the consolidated financial statements and above have each been reduced by the amount of \$200,000 from the corresponding numbers shown in (i) Note 8 to the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 2002 and filed with the Securities and Exchange Commission



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on November 14, 2002, and (ii) the summary restated Consolidated Statements of Operations for such periods contained in the Company's November 5, 2002 third quarter results press release. These reductions resulted from a reclassification of an accounting entry relating to the Company's French subsidiary. This reclassification did not affect income from operations or net income.

### 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.

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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 June 30, 2002 and September 30, 2002 was approximately \$22.3 million and \$24.2 million, respectively, payable to the Company's Trinidad subsidiary for equipment and services

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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 June 30, 2002 and September 30, 2002, the Company had invested a total of \$1.6 million 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 June 30, 2002 and September 30, 2002, the Company had made a nominal equity investment in MDL, and had deferred costs of approximately \$0.6 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

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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

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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 June 30, 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 amount)  
For the three months ended June 30

2002			
Net Income	Shares	Per Share Amount	Net Income

Basic EPS

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Income available to common stockholders	\$ 1,245	17,547	\$ 0.07	\$ 4,169
Effect of dilutive stock options	-	160	-	-
Diluted EPS	\$ 1,245	17,707	\$ 0.07	\$ 4,169

For the six months ended June 30,

	2002			
	Net Income	Shares	Per Share Amount	Net Income
Basic EPS				
Income available to common stockholders	\$ 2,744	17,528	\$ 0.16	\$ 7,164
Effect of dilutive stock options	-	214	(0.01)	-
Diluted EPS	\$ 2,744	17,742	\$ 0.15	\$ 7,164

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

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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 the "comprehensive income" as defined by SFAS No. 130 for the three months and six months ended June 30, 2002 and 2001, respectively.

(Amounts in thousands)			
Three months ended June 30,		Six months ended June 30,	
2002	2001	2002	

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Net income	\$ 1,245	\$ 4,169	\$ 2,744
Other comprehensive income, net of tax:			
Translation adjustments	7,056	(494)	4,476
Comprehensive income	\$ 8,301	\$ 3,675	\$ 7,220

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, (i) 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; and (ii) the Company's majority-owned Malaysian subsidiary, which had been reported as part of the Ultrapure Water Group, was divested in May 2002 and is reflected in 2002 operations through the divestiture date.

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.

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	For the three months ended June 30, 2002			
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group
(Amounts in thousands)				
Revenue - unaffiliated	\$ 35,944	\$ 25,440	\$ 8,726	\$ 6,810
Revenue - affiliated	2,575	-	2	-
Inter-segment transfers	1,658	163	-	635
Gross profit - unaffiliated	9,365	6,827	3,852	4,226
Gross profit - affiliated	297	-	1	-
Equity income (loss)	689	9	265	-
Income (loss) before interest, tax and minority interest	2,578	642	(1,314)	1,237
Interest income	-	-	-	-
Interest expense	-	-	-	-
Income before income taxes and minority interest	-	-	-	-

For the three months ended June 30, 2002

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	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated	\$ 41,708	\$ 30,818	\$ 30,189	\$ 6,443	
Revenue - affiliated	4,458	-	58	-	
Inter-segment transfers	590	788	-	316	
Gross profit - unaffiliated	10,235	6,433	14,693	3,453	
Gross profit - affiliated	105	-	29	-	
Equity income (loss)	468	(4)	144	-	
Income (loss) before interest, tax and minority interest	3,465	(781)	3,679	557	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes and minority interest	-	-	-	-	

For the six months ended June 30,

	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated	\$ 70,992	\$ 50,185	\$ 19,279	\$ 13,354	
Revenue - affiliated	5,690	-	2	-	
Inter-segment transfers	3,552	311	-	1,112	
Gross profit - unaffiliated	18,816	12,574	7,575	8,017	
Gross profit - affiliated	375	-	1	-	
Equity income (loss)	1,345	7	503	-	
Income (loss) before interest, tax and minority interest	4,323	(716)	(2,747)	2,014	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes and minority interest	-	-	-	-	
Identifiable assets	296,077	136,134	68,776	28,719	
Investment in affiliated companies	17,335	-	2,870	-	
Goodwill	11,209	7,062	944	-	

For the six months ended June 30,

	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated	\$ 81,336	\$ 71,666	\$ 59,429	\$ 14,231	
Revenue - affiliated	9,811	-	163	-	
Inter-segment transfers	1,987	1,969	-	998	
Gross profit - unaffiliated	20,148	16,601	25,981	7,802	
Gross profit - affiliated	173	-	82	-	
Equity income (loss)	839	50	246	-	
Income (loss) before interest, tax and minority interest	6,366	1,022	4,994	1,708	
Interest income	-	-	-	-	
Interest expense	-	-	-	-	
Income before income taxes					

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and minority interest	-	-	-	-
Investments in affiliated companies	17,599	38	3,161	-
Goodwill	11,245	16,594	20,033	1,830

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

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### 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.

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### 8. Goodwill and Intangible Assets

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This accounting standard addresses financial

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accounting and reporting for goodwill and other intangible assets and requires that goodwill amortization be discontinued and replaced with periodic tests of impairment. 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. A two-step impairment test is used to first identify potential goodwill impairment and then measure the amount of goodwill impairment loss, if any. The first step of the goodwill impairment test, which must be completed within six months of the effective date of this standard, identifies any potential goodwill impairment. As of June 30, 2002, the Company completed the transitional goodwill impairment test and determined that no adjustment to goodwill was necessary.

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

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

	(Amounts in thousands, except p Three months ended June 30,		
	2002	2001	2
Net income	\$ 1,245	\$ 4,169	
Goodwill amortization, net of tax	-	651	
Adjusted net income	\$ 1,245	\$ 4,820	
Reported basic earnings per share	\$ 0.07	\$ 0.24	
Goodwill amortization, net of tax	-	0.04	
Adjusted basic earnings per share	\$ 0.07	\$ 0.28	
Reported diluted earnings per share	\$ 0.07	\$ 0.24	
Goodwill amortization, net of tax	-	0.04	
Adjusted diluted earnings per share	\$ 0.07	\$ 0.28	

	(Amounts in thousands, except per sha For the years ended December 31		
	2001	2000	1
Net income (loss)	\$ 44,701	\$ (1,870)	\$
Goodwill amortization, net of tax	2,188	2,228	
Adjusted net income	\$ 46,889	\$ 358	\$



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Reported basic earnings (loss) per share	\$ 2.61	\$ (0.12)
Goodwill amortization, net of tax	0.13	0.14
Adjusted basic earnings per share	\$ 2.74	\$ 0.02
Reported diluted earnings (loss) per share	\$ 2.59	\$ (0.12)
Goodwill amortization, net of tax	0.13	0.14
Adjusted diluted earnings per share	\$ 2.72	\$ 0.02

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

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The Company's net intangible assets included in other assets in the Consolidated Balance Sheets consist principally of patents and trademarks. At June 30, 2002 and December 31, 2001, the net carrying value of these intangible assets was approximately \$0.6 million. Intangible assets are amortized over a period ranging up to 20 years. All intangible assets are amortized on a straight-line basis. Amortization expense for intangible assets is estimated to be approximately \$0.1 million for each of the next five years.

### 9. Acquisition

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.

### 10. Divestiture

In May 2002, the Company completed its planned divestiture of its 55% equity interest in a Malaysian affiliate, which had previously been treated as "held for sale" and included in "Other current assets." Included in the Company's first half results were revenues of \$4.2 million and a \$0.4 million pre-tax loss resulting from Malaysian operations. For the second quarter of 2002, revenues totaled \$1.6 million and pre-tax profit amounted to \$0.2 million, including a gain of approximately \$0.7 million on the sale of the Company's equity interest in the Malaysian affiliate, which is included in "Selling, general and administrative" expenses.

### 11. Subsequent Event

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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.

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### 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 and six month periods ended June 30, 2002 with the comparable periods of the prior fiscal year.

#### Restatement of Quarterly Financial Statements and Reclassifications

The Company's consolidated financial statements for the three months ended June 30, 2002 and the six months ended June 30, 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 August 14, 2002, the date on which the Company filed its quarterly report on Form 10-Q for the quarterly period ended June 30, 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

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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 second quarter 2002 revenues and gross margin for these businesses were \$6.1 million and \$1.6 million, respectively, compared to revenues and gross margin of \$5.6 million and \$1.5 million, respectively, for the second quarter of 2001. Aggregate revenues and gross margin for the first six months of 2002 for these businesses were \$13.4 million and \$3.7 million, respectively, compared to revenues and gross margin of \$12.6 million and \$3.5 million, respectively for the first six months of 2001.

### Results of Operations

Comparison of the Three and Six Month Periods Ended June 30, 2002 with the Three  
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and Six Month Periods Ended June 30, 2001  
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The Company reported consolidated revenues of \$79.5 million and net income of \$1.2 million for the second quarter of 2002, compared to \$113.7 million and \$4.2 million, respectively, during the second quarter of 2001. Revenues and net income during the six months ended June 30, 2002 were \$159.5 million and \$2.7 million, respectively, compared to revenues and net income of \$236.6 million and \$7.2 million, respectively, for the six months ended June 30, 2001. Results for 2001 include the operations of the Aqua Cool Pure Bottled Water business and the Company's 55% ownership interest in its Malaysian subsidiary which were divested on December 31, 2001 and May 2002, respectively.

Revenues. Total Company revenues for the second quarter of 2002 decreased 30.1% to \$79.5 million from \$113.7 million for the second quarter of 2001. Excluding the second quarter 2001 Aqua Cool Pure Bottled Water revenues of \$19.2 million, second quarter 2002 revenues decreased \$15.0 million, or 15.9%, from the comparable period of 2001. Revenues for the first six months of 2002 totaled \$159.5 million, compared to \$236.6 million for the comparable six month period of 2001. Total revenue declined \$41.0 million, or 20.5%, in the first half of 2002 compared to the same period of 2001, excluding the first half of 2001 Aqua Cool Pure Bottled Water revenues.

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EBG revenues during the second quarter of 2002 of \$35.9 million decreased by \$5.8 million, or 13.8%, compared to revenues of \$41.7 million during the second quarter of 2001. For the six-month period ended June 30, 2002, EBG revenues of \$71.0 million decreased \$10.3 million, or 12.7%, compared to the comparable period in the prior year. The revenue decreases over the year-earlier periods reflect lower revenue levels from domestic capital equipment sales.

UWG revenues during the second quarter of 2002 of \$25.4 million decreased by \$5.4 million, or 17.5%, compared to revenues of \$30.8 million in the second quarter of 2001. During the six-month period ended June 30, 2002, revenues of \$50.2 million decreased \$21.5 million, or 30.0%, compared to revenues of \$71.7 million for the six months ended June 30, 2001. In both periods ended June 30, 2002, revenue levels were affected by continued softness in the microelectronics industry, particularly with respect to domestic capital equipment sales.

Consumer Water Group ("CWG") revenues during the second quarter of 2002 of \$8.7 million decreased by \$21.5 million, or 71.1%, compared to revenues of \$30.2 million in the second quarter of 2001. Excluding second quarter 2001 revenues of \$19.2 million associated with the Aqua Cool Pure Bottled Water business,

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revenues in the second quarter of 2002 decreased by \$2.3 million, or 20.7%, compared to the year-earlier period. For the six months ended June 30, 2002, revenues of \$19.3 million decreased \$40.1 million, or 67.6%, compared to revenues of \$59.4 million for the year-earlier period. Adjusted to exclude 2001 revenues of \$36.1 million associated with the Aqua Cool Pure Bottled Water business, revenues decreased by \$4.1 million, or 17.4%. Revenues were affected by a lower demand for automobile windshield wash solution and consumer bleach products of the Company's Elite Consumer Products business, and by lower demand for the Company's home water treatment equipment.

Instrument Business Group ("IBG") revenues of \$6.8 million for the second quarter of 2002 increased \$0.4 million, or 5.7%, compared to \$6.4 million for the second quarter of 2001. For the six months ended June 30, 2002, revenues of \$13.4 million decreased \$0.9 million, or 6.2%, compared to revenues of \$14.2 million for the six months ended June 30, 2001. IBG revenues were also affected by continued softness in the microelectronics industry, which is an important customer for the group's instrument 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 \$2.6 million for the second quarter of 2002 compared to \$4.5 million for the second quarter of 2001. Revenues from affiliated companies amounted to \$5.7 million for the six months ended June 30, 2002 compared to \$10.0 million for the six months ended June 30, 2001. The decrease in revenues from affiliated companies from 2001 levels 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. The Company's cost of sales as a percentage of revenue for the second quarter was 69.1% in 2002 and 69.3% in 2001, and resulting gross margin was 30.9% in the second quarter of 2002 compared to 30.7% in the second quarter of 2001. For the first half of 2002, cost of sales as a percentage of revenue was 70.3% as compared to 70.1% in the first half of 2001. For the three and six months ended June 30, 2002, cost of sales as a percentage of revenue decreased in the EBG, UWG, and IBG business groups and increased in the CWG segment, compared to the comparable periods in 2001.

EBG's cost of sales as a percentage of revenue decreased to 73.9% in the second quarter and 73.5% in the first half of 2002, as compared to 75.5% and 75.2% in the same respective periods in 2001, reflecting a change in product mix from lower margin capital equipment revenue to more profitable water supply and other products. UWG's cost of sales as a percentage of revenue decreased to 73.2% and 74.9% for the second quarter and first half of 2002, respectively, as compared to 79.1% and 76.8% for the second quarter and first half of 2001, respectively. The decrease in cost of sales as a percentage of revenue was primarily attributable to reduced losses in the Company's Malaysian and Australian subsidiaries, both of which incurred significant charges in 2001 due primarily to losses on under-performing contracts. The Company's interest in the Malaysian subsidiary was divested in May 2002. Cost of sales as a percentage of revenue for CWG increased to 55.9% and 60.7% in the second quarter and first half of 2002, respectively, from 51.3% and 56.3% in the second quarter and first half of 2001, respectively. The increase in cost of sales as a percentage of revenue was primarily attributable to the exclusion of the Aqua Cool Pure Bottled Water business, which was divested on December 31, 2001, as well as a gain recognized on the sale of certain bottled water assets in the second quarter of 2001. IBG's cost of sales as a percentage of revenue decreased to 37.9% and 40.0% in the second quarter and first half of 2002, respectively, as compared to 46.4% and 45.2% in the second quarter and first half of 2001, respectively. The decrease in cost of sales as a percentage of revenue primarily reflected a higher proportion of more profitable after-market service revenue as compared to lower margin capital equipment revenue. Cost of sales to affiliated companies as a

percentage of revenue decreased to 88.4% for the second quarter of 2002 compared to 97.0% for the second quarter of 2001. Cost of sales to affiliated companies as a percentage of revenue decreased to 93.4% for the first six months of 2002 compared to 97.4% for the first six months of 2001. These decreases were 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 of \$1.6 million in the second quarter of 2002 were unchanged from the second quarter of 2001, while these expenses decreased 2.5% to \$3.2 million in the first six months of 2002 from \$3.3 million in the first six months of 2001. Selling, general and administrative expenses in the second quarter of 2002 decreased 21.9% to \$21.5 million from \$27.6 million in the second quarter of 2001. Selling, general and administrative expenses in the first six months of 2002 decreased 26.2% to \$41.4 million in the first six months of 2002 from \$56.1 million in the first six months of 2001. These operating expenses increased as a percentage of revenue during the second quarter of 2002 to 29.0% from 25.7% in the second quarter of 2001. For the six month period, operating expenses as a percentage of revenue increased to 27.9% in 2002 from 25.1% in 2001. The increases as a percentage of revenue were primarily a result of lower revenue levels during 2002 compared to 2001. Factors impacting operating expenses during the quarter ended June 30, 2002 included a gain of approximately \$0.7 million resulting from the Company's divestiture of its 55% equity interest in its Malaysian subsidiary, offset by net foreign exchange losses and certain restructuring charges in the CWG segment following the Company's divestiture of the Aqua Cool Pure Bottled Water business on December 31, 2001.

Interest income (expense). For the six months ended June 30, 2002, interest income increased to \$1.9 million compared to \$1.0 million for the first six months of 2001. The increase in interest income reflected investment of the proceeds from the sale of the Aqua Cool Pure Bottled Water business. Interest expense of \$0.4 million and \$0.9 million for the second quarter and first half of 2002, respectively, decreased from \$1.4 million and \$3.1 million from the respective periods in 2001. The decreases in interest expense were primarily attributable to lower short-term borrowings during the 2002 periods, which resulted primarily from the application of the proceeds from the sale of the Aqua Cool Pure Bottled Water business on December 31, 2001.

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

Taxes. The Company's effective tax rate was 40.7% for the first six months of 2002 compared to 34.0% for the first six months of 2001. The increase in the overall tax rate was primarily attributable to an increase in forecasted losses incurred by the Company's French subsidiary for which the Company may not be able to realize future tax benefits.

Financial Condition

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At June 30, 2002, the Company had \$139.1 million in cash and cash equivalents and \$227.6 million of working capital. Working capital increased \$5.6 million during the first six months of 2002 while the Company's current ratio of 3.0 at June 30, 2002 increased from 2.4 at December 31, 2001. Accounts payable and accrued expenses decreased \$19.9 million during the first half of 2002, reflecting lower revenue levels during the first six months of 2002 compared to 2001. Income taxes payable decreased \$19.7 million during the first half of 2002, primarily reflecting tax payments made on the gain from the sale of the Company's Aqua Cool Pure Bottled Water business.

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

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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.

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

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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 June 30, 2002 and September 30, 2002 was approximately \$22.3 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

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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.

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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 June 30, 2002 and September 30, 2002, the Company had invested a total of \$1.6 million 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 June 30, 2002 and September 30, 2002, the Company had made a nominal equity investment in MDL, and had deferred costs of approximately \$0.6 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 June 30, 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



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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.

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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 June 30, 2002, the Company's total borrowings outstanding under all of its existing credit facilities were \$8.6 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

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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.

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### 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  
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In 2001, the Company's Italian subsidiary entered into a series of U.S. dollar/euro options contracts with the intent of offsetting the foreign exchange risk associated with forecasted cash flows related to an ongoing project. These options contracts were not entered into for trading purposes. In accordance with the restrictions set forth in SFAS No. 133, the contracts do not qualify for hedge accounting treatment. The fair market value of the contracts were recorded as a liability of \$1.2 million in the other current liabilities section of the Consolidated Balance Sheet at December 31, 2001. End-of-period changes in the market value of the contracts were reflected in the selling, general and administrative expenses in the Consolidated Statement of Operations. In addition, the Company periodically enters into foreign exchange contracts to hedge certain operational and balance sheet exposures against changes in foreign currency exchange rates. The Company had no foreign exchange contracts outstanding at June 30, 2002 and 2001.

### Market Risk

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

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## PART II - OTHER INFORMATION

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

- a) The Annual Meeting of the Stockholders was held on May 8, 2002. Douglas R. Brown, Kathleen F. Feldstein, Arthur L. Goldstein and Carl S. Sloane were reelected as Class I Directors for a three-year term. Continuing as Class II Directors until the 2003 Annual Meeting are Arnaud de Vitry d'Avaucourt, William E. Katz, Daniel I. C. Wang and Mark S. Wrighton. Continuing as Class III Directors until the 2004 Annual Meeting are Stephen L. Brown, William K. Reilly, John J. Shields and Allen S. Wyett. The numbers of votes cast for the election of the Class I Directors were as follows:

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

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

i) Approval of Amendment to 1997 Stock Incentive Plan

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

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

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

Item 5. Other Information

Amounts shown on the Consolidated Statements of Operations in Part I for "Revenues" and "Cost of sales of Equipment Business Group" for the three and six months ended June 30, 2002 each reflect a reduction of \$200,000 from the corresponding numbers shown in (i) Note 8 to the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 2002 and filed with the Securities and Exchange Commission on November 14, 2002, and (ii) the summary restated Consolidated Statements of Operations for such periods contained in the Company's November 5, 2002 third quarter results press release. These reductions resulted from a reclassification of an accounting entry relating to the Company's French subsidiary. This reclassification did not affect income from operations or net income. Giving effect to this reclassification to the nine months ended September 30, 2002, Equipment Business Group revenues decreased from \$112.6 million to \$112.4 million and cost of sales of Equipment Business Group decreased from \$83.9 million to \$83.7 million. This reclassification does not effect any changes to the Company's financial statements as of and for the three months ended September 30, 2002.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

None

b) Reports on Form 8-K

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

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

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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

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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