

IONICS INC
Form PREM14A
December 24, 2003

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UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

IONICS, INCORPORATED

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock, \$1.00 par value per share of Ionics, Incorporated

(2) Aggregate number of securities to which transaction applies:
4,905,660 shares of Common Stock of Ionics, Incorporated

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
\$31.16, which is the average of the high and low prices of Ionics common stock on December 17, 2003 as reported on the New York Stock Exchange

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(4) Proposed maximum aggregate value of transaction:
\$352,860,365.60

(5) Total fee paid:
\$28,546.40

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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IONICS, INCORPORATED

**65 Grove Street
Watertown, Massachusetts 02472-2882**

Douglas R. Brown

President and Chief Executive Officer

, 200

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders. The meeting is scheduled for 2004 at :00 .M., EST, and will be held at Ionics' principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882.

At the meeting, you will be asked to approve the issuance of up to 4,905,660 shares of Ionics common stock in connection with the purchase by Ionics of Ecolochem, Inc. and its affiliated companies. Ecolochem, a privately-held company headquartered in Norfolk, Virginia, is a leading provider of mobile water treatment services. This transaction is expected to significantly augment Ionics' existing capabilities as a global water technology company.

At the meeting, you will also be asked to approve an increase in the number of shares Ionics is authorized to issue, an increase in the number of shares available under Ionics' 1997 Stock Incentive Plan and to permit the grant of restricted stock awards under that Plan.

Ionics' Board of Directors has unanimously recommended that you vote **FOR** approval of each of these proposals. The notice of meeting and proxy statement follow. Please give this material your careful attention.

Please sign and return your proxy promptly, whether or not you plan to attend the special meeting. Your vote is very important to Ionics.

On behalf of Ionics' directors and officers, I wish to thank you for your interest in Ionics.

Sincerely,

DOUGLAS R. BROWN

President and Chief Executive Officer

YOUR VOTE IS IMPORTANT

Please sign, date and return your proxy card promptly

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IONICS, INCORPORATED

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

, 2004

To the Stockholders of

Ionics, Incorporated:

Notice is hereby given that a Special Meeting of Stockholders of Ionics, Incorporated (Ionics) will be held at Ionics principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882, on _____, 2004 at _____:00 .M., EST, to consider and act upon proposals:

1. To approve the issuance of up to 4,905,660 shares of Ionics common stock in connection with Ionics proposed acquisition of Ecolochem, Inc. and its affiliated companies;
2. To approve an amendment to Ionics articles of organization to increase the number of authorized shares of Ionics common stock to 100,000,000 shares from 55,000,000 shares;
3. To approve an amendment to Ionics 1997 Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1,200,000 shares;
4. To approve an amendment to Ionics 1997 Stock Incentive Plan to authorize grants of restricted stock thereunder; and
5. To consider and act upon such other matters as may properly come before the meeting.

Any action on the items of business described above may be considered at the meeting at the time and on the date specified above or at any time and date to which the meeting may be properly adjourned or postponed.

The Board of Directors has fixed the close of business on December 22, 2003 as the record date for determination of the stockholders entitled to notice of and to vote at the meeting. Any stockholder attending the meeting who is entitled to vote at the meeting may vote in person even if such stockholder has returned a proxy.

By Order of the Board of Directors

STEPHEN KORN, *Clerk*
Ionics, Incorporated
65 Grove Street
Watertown, Massachusetts 02472-2882

, 200

WHETHER OR NOT YOU EXPECT TO BE AT THE MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE POSTAGE PRE-PAID ENVELOPE IONICS HAS PROVIDED.

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IONICS, INCORPORATED

65 Grove Street
Watertown, Massachusetts 02472-2882

PROXY STATEMENT

This Proxy Statement (this Proxy Statement) is being furnished to holders of Ionics common stock in connection with the solicitation of proxies by the Board of Directors of Ionics, Incorporated for use at the Special Meeting of Stockholders to be held on _____, 2004 (the Special Meeting) at _____:00 .M., EST, at Ionics principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882, and any adjournments thereof. This Proxy Statement and the accompanying notice of special meeting of stockholders and form of proxy were first sent or given to stockholders on or about _____, 2004 .

At the Special Meeting, Ionics stockholders will be asked to consider and vote on proposals to approve:

1. the issuance of up to 4,905,660 shares of Ionics common stock (the Acquisition Issuance Proposal) in connection with Ionics proposed acquisition (the Acquisition) of Ecolochem, Inc. (Ecolochem), Ecolochem International, Inc. (Ecolochem International), Moson Holdings, LLC (Moson Holdings) and Ecolochem S.A.R.L. (Ecolochem S.A.R.L.);
2. the proposed amendment to Ionics articles of organization to increase the number of authorized shares of Ionics common stock to 100,000,000 shares from 55,000,000 shares (the Charter Amendment Proposal);
3. the proposed amendment to Ionics 1997 Stock Incentive Plan to increase the number of shares available for issuance under the plan by 1,200,000 shares (the Option Plan Increase Proposal);
4. the proposed amendment to Ionics 1997 Stock Incentive Plan to authorize grants of restricted stock under the plan (the Restricted Stock Proposal); and
5. any other matters properly brought before the meeting for consideration by the stockholders.

Ionics Board of Directors has unanimously recommended that you vote **FOR** approval of each of these proposals. Please give your careful attention to the more detailed information regarding each of these proposals that appears in this proxy statement.

This Proxy Statement is dated _____, 2003.

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QUESTIONS AND ANSWERS

Q. When and where will the Special Meeting be held? (See page 1)

A. The Special Meeting will be held on _____, 2004 at _____:00 _____M., EST, at Ionics' principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882.

Q: What do you need to do now? (See pages 26 to 27)

A: Ionics urges you to read carefully and consider the information contained in this Proxy Statement. In addition, you should complete, sign and date the attached proxy card and return it to Ionics, Incorporated, Proxy Services, c/o EquiServe Trust Company, N.A., P.O. Box 8687, Edison, NJ 08818-9247 in the enclosed postage-prepaid return envelope as soon as possible so that your shares of Ionics common stock may be represented at the Special Meeting.

Q: Is the Acquisition contingent upon approval at the Special Meeting of any of the proposals to be voted upon at the Special Meeting other than the Acquisition Issuance Proposal?

A: No.

Q: What will Ionics do if stockholders do not approve the issuance of shares in connection with the Acquisition? (See page 51)

A: If the stockholders do not approve the proposal to issue shares in connection with the Acquisition, Ionics expects to terminate the purchase agreement and abandon its efforts to complete the Acquisition.

Q: Are there risks you should consider in deciding whether to vote in favor of the Acquisition Issuance Proposal? (See pages 18 to 24)

A: Yes. You should consider carefully the matters discussed in the section of this Proxy Statement entitled "Risk Factors" beginning on page 18.

Q: Are your shares of Ionics common stock being converted or exchanged in the acquisition of the Ecolochem Group?

A: No.

Q: Are you entitled to dissenter's or appraisal rights? (See page 27)

A: No. You are not entitled to dissenter's or appraisal rights in connection with any of the proposals to be considered and acted upon at the Special Meeting.

Q: Can you change your vote after you have voted by proxy? (See page 26)

A: Yes. A stockholder giving a proxy has the power to revoke it at any time prior to its exercise by:

Delivering a written notice of revocation bearing a later date than the proxy to the Clerk of Ionics at or before the taking of the vote at the Special Meeting;

Delivering a duly executed proxy relating to the same shares and bearing a later date to the Clerk of Ionics before the taking of the vote at the Special Meeting; or

Attending the Special Meeting and voting such shares in person. Stockholders should note, however, that merely attending the Special Meeting in person without casting a vote at the meeting will not alone constitute a revocation of a proxy.

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Q: If your shares of Ionics common stock are held in street name by a broker, will the broker vote the shares? (See page 27)

A: A broker will vote shares at the Special Meeting on the Acquisition Issuance Proposal, the Option Plan Increase Proposal and the Restricted Stock Proposal only if you give the broker instructions on how to vote on these proposals. Your broker has discretion to vote your shares on the Charter Amendment Proposal if you do not give your broker instructions on how to vote on that proposal. If your shares are held by a broker, you should instruct your broker as to how you want your shares to be voted.

Q: Whom should you contact if you have additional questions?

A: For more information, you should contact Stephen Korn, Clerk, Ionics, Incorporated, 65 Grove Street, Watertown, Massachusetts 02472-2882, (617) 926-2500.

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SUMMARY RELATING TO THE ACQUISITION

This summary highlights selected information contained in this Proxy Statement related to the Acquisition and may not contain all of the information that is important to you. To understand the Acquisition fully and for a more complete description of the terms of the Purchase Agreement and the Stockholders Agreement, you should carefully read this entire document, including the annexes, and the other documents to which Ionics refers you.

The Companies Involved in the Acquisition

Ionics, Incorporated

65 Grove Street
Watertown, MA 02472-2882
(617) 926-2500
www.ionics.com

Ionics is a leading water purification company engaged worldwide in the supply of water and related activities and the supply of water treatment equipment through the use of proprietary separations technologies and systems. Ionics products and services are used by it or its customers to desalt brackish water and seawater, recycle and reclaim process water and wastewater, treat water in the home, manufacture and supply water treatment chemicals and ultrapure water, process food products, and measure levels of waterborne contaminants and pollutants. Ionics customers include industrial companies, consumers, municipalities and other governmental entities, and utilities.

Ecolochem, Inc.

Ecolochem International, Inc.
Moson Holdings, LLC
Ecolochem S.A.R.L.
c/o Ecolochem, Inc.
4545 Patent Road
Norfolk, VA 23502
(757) 855-9000
www.ecolochem.com

The Ecolochem Group, consisting of Ecolochem, Ecolochem International, Moson Holdings and Ecolochem S.A.R.L., is a leading provider of mobile water treatment services. The Ecolochem Group believes it has the largest mobile water treatment fleet and the broadest geographic service coverage in North America and Europe. The Ecolochem Group also offers outsourced, or customer facility-based, long-term, water treatment services, supplying water treatment systems. Treating surface, well or municipal water to meet the specifications of industrial customers, the Ecolochem Group supplies this service to a variety of industries, including the nuclear and fossil fuel electric power industry, the refining, chemical and petrochemical industries, and the pulp and paper industry. Today, the Ecolochem Group processes approximately one billion gallons of water monthly for numerous Fortune 500 and other customers in more than 30 countries.

Risk Factors

Ionics stockholders should carefully consider the matters discussed in the section of this Proxy Statement entitled "Risk Factors" beginning on page 18 in connection with their evaluation of the proposal

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to approve the issuance of shares of Ionics common stock in the Acquisition, including in particular risks relating to:

Ionics' potential difficulty in realizing the expected benefits of the Acquisition;

the potential difficulty of integrating Ionics and the Ecolochem Group;

Ionics' potential difficulty in obtaining cash to finance the Acquisition and other risks associated with the debt that Ionics expects to incur to finance the Acquisition;

the significant influence on Ionics' corporate matters by the former owners of the Ecolochem Group;

future sales of Ionics common stock that could depress the market price of Ionics common stock;

the operations, financial condition and results of operations of Ionics while the Acquisition is pending and after completion of the Acquisition; and

the impact of weather conditions on the Ecolochem Group's business.

The Acquisition of the Ecolochem Group

The Acquisition

Pursuant to the Purchase Agreement (the "Purchase Agreement") dated as of November 18, 2003, by and among Ionics and the stockholders and members of the Ecolochem Group (the "Sellers"), Ionics has agreed to purchase all of the outstanding shares of capital stock, equity interests and membership interests of the Ecolochem Group from the Sellers (the "Acquisition"). Following the closing of the Acquisition, the Ecolochem Group will be directly or indirectly wholly owned by Ionics. A copy of the Purchase Agreement is attached as Annex A to this Proxy Statement. Ionics encourages you to read the Purchase Agreement carefully and fully as it is the definitive agreement that governs the Acquisition.

Purchase Price and Related Adjustments (See pages 42 to 43)

Ionics has agreed to pay the Sellers in the Acquisition an aggregate purchase price of \$200,000,000 in cash and 4,905,660 shares of Ionics common stock, subject to adjustment as provided in the Purchase Agreement.

The Purchase Agreement provides for the following adjustments to the purchase price:

The cash portion of the purchase price will be adjusted by the amount of undistributed "Excess Cash" as of the closing of the Acquisition. "Excess Cash" generally is an amount equal to (i) all cash, cash equivalents, marketable securities and certain deposits of the Ecolochem Group as of the close of business on the business day immediately preceding the closing date, minus (ii) all indebtedness for money borrowed from parties other than other members of the Ecolochem Group and certain other specified obligations of the Ecolochem Group.

The cash portion of the purchase price is also subject to adjustment based on the difference between the Ecolochem Group's combined adjusted working capital as of the close of business on the business day immediately prior to the date of the closing of the Acquisition and \$17,000,000. If the Ecolochem Group's combined adjusted working capital as of that date exceeds \$17,000,000, the cash portion of the purchase price will be increased by the amount of such excess. If the Ecolochem Group's combined adjusted working capital is less than \$17,000,000, the cash portion of the consideration will be decreased by that shortfall.

If requested by Ionics, the shareholders of Ecolochem and Ecolochem International (as applicable) will join with Ionics in making an election under Section 338(h)(10) of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to the acquisition of Ecolochem, Ecolochem International or both. Ionics has agreed that, if such an election is made with respect to

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Ecolochem, Ecolochem International or both, Ionics will pay to the shareholders of any company with respect to which such election is made the amount of cash necessary to cause the after-tax proceeds received by such shareholders to be equal to the after-tax proceeds such shareholders would have received if no such election had been made. Ionics has agreed to provide either a letter of credit or a separate cash escrow account, in each case for the benefit of such Sellers (see the section entitled Purchase Agreement and Other Related Agreements Escrow and/or Letter of Credit for Election under Section 338(h)(10) of the Code on page 44) to secure this additional payment obligation. Ionics currently expects to make an election under Section 338(h)(10) of the Code only with respect to Ecolochem. Ionics currently believes that making such an election with respect to Ecolochem will provide Ionics with significantly greater tax savings over time than the initial additional cost incurred in making this election.

In addition, Ionics has the right to substitute cash for shares of Ionics common stock that the Sellers would otherwise have the right to receive under the Purchase Agreement as and to the extent reasonably necessary to ensure that the Sellers, as a group, do not own (directly or under applicable tax attribution rules) immediately after the closing of the Acquisition in excess of 19.5% of the outstanding shares of Ionics common stock. Each share of Ionics common stock for which cash is so substituted will be valued at \$26.50. Ionics currently expects to exercise this right only if it makes an election under Section 338(h)(10) of the Code with respect to Ecolochem, Ecolochem International or both. If Ionics exercises this right to substitute cash for shares of Ionics common stock, the cash portion of the purchase price will be increased and the number of shares of Ionics common stock issued to the Sellers in the Acquisition will be decreased. To finance the additional cash portion of the purchase price, Ionics may borrow additional amounts, sell a like number of shares of Ionics common stock to another party or engage in other transactions. Approval of the Acquisition Issuance Proposal will also constitute approval of the issuance of shares of Ionics common stock to another party to finance such additional cash portion of the purchase price.

Financing of the Acquisition (See page 37)

Ionics currently expects to fund the cash portion of the Acquisition purchase price from available cash resources and the proceeds from new credit facilities committed by a group of financial institutions, subject to customary conditions. Ionics has applied for credit ratings on the proposed debt financing. If Ionics fails to obtain financing, either from such financial institutions or otherwise on terms acceptable to Ionics Board of Directors, either Ionics or the Sellers may terminate the Purchase Agreement and abandon the Acquisition. In addition, if the financing includes the issuance of equity or equity-related securities, the Sellers may terminate the Purchase Agreement and abandon the Acquisition. If the Purchase Agreement is terminated under certain circumstances, Ionics will have to pay the Sellers a \$13.2 million termination fee or reimburse the Sellers for up to \$4.5 million of their expenses.

Reasons for the Proposed Acquisition (See pages 30 to 32)

The factors considered by the Ionics Board of Directors in evaluating the Acquisition included the following:

The Acquisition reinforces Ionics' strategic focus on water services with predictable recurring revenue and will expand Ionics' presence in the markets for water treatment services for the electric power and petrochemical industries.

The Acquisition offers Ionics opportunities to increase sales and realize operating synergies, benefit from economies of scale and realize tax savings if certain tax elections are made.

The purchase price for the Acquisition represented multiples of the Ecolochem Group's EBITDA and EBIT for the year ended September 30, 2003 that compared favorably to multiples of EBITDA and EBIT paid in comparable transactions.

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Based on the projected operating results of Ionics and the Ecolochem Group and the consideration to be paid, the Acquisition is expected to increase Ionics' projected 2004 earnings per share.

Goldman Sachs, Ionics' financial adviser, opined that, as of November 18, 2003 and based upon and subject to the factors and assumptions set forth therein, the consideration of \$200,000,000 in cash and 4,905,660 shares of Ionics common stock, taken in the aggregate, to be paid by Ionics pursuant to the Purchase Agreement for all of the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group is fair from a financial point of view to Ionics.

Mr. Lyman Dickerson, the President and a principal owner of the Ecolochem Group, will be joining Ionics' Board of Directors and executive management team.

Recommendation of the Ionics Board of Directors (See page 32)

The Ionics Board of Directors has unanimously determined that the issuance of the shares of Ionics common stock in the Acquisition is advisable and in the best interests of Ionics and its stockholders and has unanimously recommended that Ionics' stockholders vote **FOR** the Acquisition Issuance Proposal. The Acquisition cannot be completed unless Ionics stockholders approve the Acquisition Issuance Proposal. The Acquisition is not contingent upon the approval at the Special Meeting of any other proposal presented to Ionics stockholders.

Votes Required (See page 32)

The affirmative vote of the holders of a majority of shares of Ionics common stock present or represented by proxy at the Special Meeting is required to approve the Acquisition Issuance Proposal.

Opinion of Ionics' Financial Adviser (See pages 32 to 37)

Goldman Sachs has delivered its opinion to the Ionics Board of Directors that, as of November 18, 2003 and based upon and subject to the factors and assumptions set forth therein, the consideration of \$200,000,000 in cash and 4,905,660 shares of Ionics common stock, taken in the aggregate, to be paid by Ionics pursuant to the Purchase Agreement for all of the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group is fair from a financial point of view to Ionics.

The full text of the written opinion of Goldman Sachs, dated November 18, 2003, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C. Ionics' stockholders should read the opinion in its entirety. Goldman Sachs provided its opinion for the information and assistance of the Ionics Board of Directors in connection with its consideration of the Acquisition. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of Ionics common stock should vote with respect to the Acquisition. In the aggregate, Goldman Sachs will receive fees of approximately \$3.5 million, \$3.25 million of which are contingent upon consummation of the Acquisition, and will have its expenses reimbursed.

Interests of Certain Persons in the Acquisition (See page 38)

Ionics does not believe that any of its current directors or executive officers have any substantial direct or indirect interest in the Acquisition.

Ionics intends to appoint Mr. Lyman Dickerson to the Ionics Board of Directors simultaneously with the closing of the Acquisition. See the section entitled Purchase Agreement and Other Related Agreements Board Composition beginning on page 54. Mr. Lyman Dickerson has substantial direct and indirect interests in the Acquisition. All of the Sellers may be considered associates of Mr. Lyman Dickerson under the Exchange Act. Mr. Lyman Dickerson, or trusts for which he or his family are beneficiaries, owns a substantial amount of the capital stock, equity interests and membership interests in the Ecolochem Group and, as such, will receive approximately 50% of the purchase price to be paid to the

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Sellers in connection with the Acquisition. In addition, upon the closing of the Acquisition, Mr. Lyman Dickerson will enter into an employment agreement with Ionics. See the section entitled Purchase Agreement and Other Related Agreements Ancillary Agreements Employment Agreement with Mr. Lyman Dickerson beginning on page 55 for a description of the employment agreement.

Appraisal Rights (See page 27)

Ionics stockholders are not entitled to dissenters or appraisal rights in connection with the Acquisition.

Accounting Treatment (See pages 37 to 38)

Ionics intends to account for the acquisition using the purchase method of accounting.

U.S. Federal Income Tax Treatment (See pages 38 to 39)

In general, Ionics will be treated for United States federal income tax purposes as (i) acquiring the outstanding stock of Ecolochem and Ecolochem International and (ii) acquiring the assets of Ecolochem S.A.R.L. and Moson Holdings, in each case in transactions generally taxable to the Sellers.

If a valid election is made under Section 338(h)(10) of the Code with respect to Ecolochem, Ecolochem International or both, Ionics will generally be able to treat the acquisition of the stock of the company with respect to which the election is made as if new subsidiaries of Ionics had acquired the assets of such company in a taxable transaction, which may result in an increased U.S. federal income tax basis in the assets held by such company. If Ionics makes such an election, Ionics may be entitled to increased depreciation and amortization deductions under the Code. Ionics may not, however, be entitled to any increased depreciation and amortization deductions and, accordingly, you should not base your decision to vote in favor of the Acquisition on any depreciation, amortization or other tax benefits. Ionics has agreed that, if such an election is made, Ionics will reimburse the shareholders of the company with respect to which the election is made for any additional taxes they may owe as a result of any such election.

Conditions to Closing (See pages 53 to 54)

The obligation of Ionics to consummate the Acquisition is subject to the satisfaction or waiver of a number of conditions, including the following:

The representations and warranties made by the Sellers in the Purchase Agreement are accurate, subject to materiality qualifications;

The Sellers shall have complied in all material respects with all covenants and agreements in the Purchase Agreement required to be complied with at the time of the closing of the Acquisition;

The absence of any law, order, injunction, decree or other legal restraint or prohibition preventing the consummation of the Acquisition or certain related matters;

Ionics stockholders shall have approved the Acquisition Issuance Proposal;

The shares of Ionics common stock to be issued to the Sellers shall have been approved for listing on the NYSE, subject to official notice of issuance;

All of the indebtedness of the Ecolochem Group for borrowed funds owed to financial institutions and any other persons (other than companies of the Ecolochem Group and their subsidiaries) shall have been repaid, all obligations related thereto paid or satisfied, all liens shall have been discharged and all derivatives shall have been terminated;

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The Sellers shall have taken all necessary action under certain governing instruments of the Ecolochem Group and other applicable agreements to permit the consummation of the Acquisition;

Ionics shall have obtained the proposed financing for the Acquisition or obtained acceptable alternative financing.

The obligations of the Sellers to consummate the Acquisition are subject to the satisfaction or waiver of a number of conditions, including the following:

The representations and warranties made by Ionics in the Purchase Agreement are accurate, subject to materiality qualifications;

Ionics shall have complied in all material respects with all covenants and agreements in the Purchase Agreement required to be complied with at the time of the closing of the Acquisition;

The absence of any law, order, injunction, decree or other legal restraint or prohibition preventing the consummation of the Acquisition or certain related matters;

Ionics stockholders shall have approved the Acquisition Issuance Proposal;

The shares of Ionics common stock to be issued to the Sellers shall have been approved for listing on the NYSE, subject to official notice of issuance;

Ionics shall have filed with the SEC a registration statement covering the resale of the shares of Ionics common stock to be issued to the Sellers in the Acquisition and it shall have been declared effective and shall continue to be effective as of the closing of the Acquisition;

The two directors chosen by the Sellers shall have been appointed to the Ionics Board of Directors, provided the Sellers have supplied Ionics with the names of such persons by December 31, 2003; and

Ionics shall have obtained the proposed financing for the Acquisition or obtained acceptable alternative financing.

Termination (See page 51)

The Purchase Agreement may be terminated and the Acquisition abandoned under the following circumstances:

By mutual consent of the parties;

By either party:

If the closing of the Acquisition does not occur on or before May 18, 2004, unless the deadline is extended under certain circumstances, provided that the terminating party has theretofore fulfilled its obligations regarding the taking of all actions necessary to consummate the Acquisition;

If Ionics stockholders do not approve the Acquisition Issuance Proposal; or

If Ionics does not obtain financing for the cash consideration to be paid pursuant to the Purchase Agreement on or before May 18, 2004, unless the deadline is extended under certain circumstances;

By Ionics:

If the Sellers are unable to satisfy their conditions to closing and Ionics does not waive such conditions, provided that Ionics is not in material breach of any of its representations, warranties, covenants or other agreements under the Purchase Agreement; or

If its Board of Directors shall have approved any of certain specified transactions relating to a future acquisition of Ionics involving third parties (an Ionics Acquisition Transaction) that is superior (according to specific guidelines set forth in the Purchase Agreement) to the Acquisition

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and that is conditioned on the Acquisition not being consummated and Ionics shall have, concurrently with such termination, entered into a definitive agreement providing for the implementation of such Ionics Acquisition Transaction;

By Sellers (by action of the Sellers' representatives):

If Ionics is unable to satisfy any of its conditions to closing and the Sellers do not waive such conditions, provided that the Sellers are not in material breach of any of their representations, warranties, covenants or other agreements under the Purchase Agreement;

If the Ionics Board of Directors approves or recommends an Ionics Acquisition Transaction;

If the Ionics Board of Directors withdraws or modifies, or publicly proposes to withdraw or modify, in a manner adverse to the Sellers, its recommendation that Ionics' stockholders approve the Acquisition Issuance Proposal or fails to recommend or publicly proposes not to recommend that Ionics' stockholders approve the Acquisition Issuance Proposal;

If an Ionics Acquisition Transaction is consummated or a definitive agreement providing for the implementation of an Ionics Acquisition Transaction is entered into; or

If Ionics shall have obtained financing for the cash consideration to be paid pursuant to the Acquisition that involves the issuance, sale or delivery of equity or equity-related securities (including debt securities convertible into, or exercisable or exchangeable for, shares of Ionics common stock).

Fees (See pages 51 to 52)

Ionics will pay the Sellers a termination fee of \$13,200,000 if the Purchase Agreement is terminated under the following circumstances:

The Purchase Agreement is terminated as a result of the approval or recommendation by the Ionics Board of Directors of an Ionics Acquisition Transaction or as a result of the consummation or entering into of a definitive agreement relating to an Ionics Acquisition Transaction if the Ionics Acquisition Transaction that triggers the Sellers' right to terminate is conditioned on the Acquisition not being consummated in accordance with the terms of the Purchase Agreement;

The Purchase Agreement is terminated by the Sellers as a result of the Ionics Board of Directors withdrawing or modifying, or publicly proposing to withdraw or modify, in a manner adverse to the Sellers, its recommendation that Ionics' stockholders approve the Acquisition Issuance Proposal or failing to recommend or publicly proposing not to recommend that Ionics' stockholders approve the Acquisition Issuance Proposal;

The Purchase Agreement is terminated by Ionics as a result of its Board of Directors having approved an Ionics Acquisition Transaction that is superior (according to specific guidelines set forth in the Purchase Agreement) to the Acquisition and that is conditioned on the Acquisition not being consummated and Ionics, concurrently with such termination, enters into a definitive agreement providing for the implementation of such Ionics Acquisition Transaction;

An Ionics Acquisition Transaction is publicly announced, publicly proposed, publicly commenced or consummated and either (i) the Purchase Agreement is subsequently terminated if the closing of the Acquisition does not occur on or before May 18, 2004, unless the deadline is extended under certain circumstances, or (ii) Ionics' stockholders do not approve of the Acquisition Issuance Proposal; or

The Purchase Agreement is terminated by the Sellers or Ionics as a result of Ionics' failure to obtain financing for the cash portion of the purchase price to be paid pursuant to the purchase agreement on or before May 18, 2004, unless the deadline is extended under certain circumstances, other than because of the reasonable determination by any party providing such financing that a material adverse change has occurred with regard to the Ecolochem Group or the financial, banking

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or capital markets generally which has had or reasonably could be expected to have a material adverse effect on syndication of any portion of the financing to be provided to Ionics to consummate the Acquisition.

If the Purchase Agreement is terminated as a result of the approval or recommendation by the Ionics Board of Directors of an Ionics Acquisition Transaction or as a result of the consummation or entering into of a definitive agreement relating to an Ionics Acquisition Transaction (but such termination does not otherwise give right to the payment of the full \$13,200,000 fee referred to above), Ionics will pay the Sellers an amount equal to the reasonable out-of-pocket costs and expenses of the Sellers and the Ecolochem Group incurred in connection with the Purchase Agreement up to an aggregate of \$4,500,000.

If the Purchase Agreement is terminated by the Sellers as a result of Ionics obtaining financing for the cash consideration to be paid pursuant to the Purchase Agreement that involves the issuance, sale or delivery of equity or equity-related securities, Ionics will pay the Sellers an amount equal to the reasonable out-of-pocket costs and expenses of the Sellers and the Ecolochem Group incurred in connection with the Purchase Agreement up to an aggregate of \$4,500,000.

Federal or State Regulatory Filings Required in Connection with the Acquisition (See page 40)

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), the Acquisition may not be completed until notifications have been given and certain information and materials have been furnished to and reviewed by the Antitrust Division of the United States Department of Justice and the Federal Trade Commission and the required waiting period has expired or been terminated. Ionics and certain of the Sellers filed the required notification and report forms under the HSR Act with the Department of Justice and the Federal Trade Commission on December 5, 2003. Ionics and the Sellers who made filings under the HSR Act received notification on December 17, 2003 that they had been granted early termination of the waiting period.

Ionics is required to file with the SEC a registration statement covering the resale of the shares of Ionics common stock to be issued to the Sellers pursuant to the Purchase Agreement. That registration statement is required to have been declared effective prior to the closing of the Acquisition.

Board Composition (See pages 54 to 55)

In connection with the Acquisition, Ionics plans to expand the Ionics Board of Directors from nine members to up to 11 members prior to the closing of the Acquisition.

The Sellers and certain of their permitted transferees will be entitled to designate up to two members of the Board of Directors, one of whom will be Mr. Lyman Dickerson, the current president of Ecolochem, and the other of whom has not yet been designated. The number of directors they are entitled to designate decreases as the their ownership of Ionics common stock decreases below certain thresholds. At least one of these new directors will sit on each committee of the Ionics Board of Directors, to the extent such director is eligible to do so under applicable law and NYSE requirements.

Mr. Lyman Dickerson will also have the right to be appointed Chairman of the Ionics Board of Directors for a period of two years after he resigns as an employee of Ionics if either Arthur L. Goldstein, the current Chairman, is no longer serving in that capacity or Mr. Dickerson's resignation occurs after the second anniversary of the closing of the Acquisition.

No-Shop Provisions (See page 48)

The Sellers have agreed to no-shop provisions prohibiting the Sellers, the Ecolochem Group and certain other related parties, until the closing of the Acquisition, from soliciting, initiating or encouraging the submission of any offer or proposal for certain specified transactions relating to a future acquisition of the Ecolochem Group or its subsidiaries involving third parties, or entering into an agreement with respect to any such transaction, or providing non-public information regarding the Ecolochem Group or its

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subsidiaries to any third party or engaging in negotiations or discussions in connection with any such transaction.

Ionics has agreed to no-shop provisions prohibiting Ionics and certain other related parties, until the closing of the Acquisition, from soliciting, initiating or encouraging the submission of any offer or proposal for certain specified transactions relating to an Ionics Acquisition Transaction, or entering into an agreement with respect to any Ionics Acquisition Transaction, or providing non-public information regarding Ionics or its subsidiaries to any third party or engaging in negotiations or discussions in connection with any Ionics Acquisition Transaction.

Standstill (See page 55)

Following the closing of the Acquisition, until the earlier of the date on which the Sellers and certain related parties beneficially own less than 15% of Ionics outstanding common stock and November 18, 2008, without the prior approval of a majority of the members of the Ionics Board of Directors (other than those designated by the Sellers and certain of their permitted transferees), the Sellers will not take certain actions designed to acquire control of Ionics, other than under certain other limited circumstances.

Registration Rights (See page 54)

Ionics has agreed to file one or more registration statements with the SEC covering the resale of the shares of Ionics common stock to be issued to the Sellers in the Acquisition. Under certain circumstances, the Sellers will have demand and incidental registration rights, subject to certain limitations.

Certain Restrictions on Voting and Transfers (See page 55)

In connection with the closing of the Acquisition, the Sellers will agree that, until the earlier of the first anniversary of such closing or certain other events, the Sellers and certain of their permitted transferees will vote or will grant Ionics a proxy to vote their shares of Ionics common stock in the same proportion as the votes cast by or on behalf of the other stockholders of Ionics, except that they may vote in any manner they choose in the election of any director designated by the Sellers.

At the closing of the Acquisition, the Sellers and certain of their permitted transferees will also agree not to transfer, during the six months following such closing, more than 10% of the shares of Ionics common stock issued to them in the Acquisition other than to a related person. The Sellers will also agree to certain restrictions on the sale or other transfer of such shares of Ionics common stock to competitors of Ionics.

Employment Agreement with Mr. Lyman Dickerson (See pages 55 to 56)

At the closing of the Acquisition, Ionics will enter into an employment agreement with Mr. Lyman Dickerson, President of Ecolochem. The agreement will have a two-year term and provide that he will be employed as the Vice President of Ionics Water Systems Division. He will also be entitled to a severance benefit if his employment is terminated by Ionics for reasons other than cause (as defined in the employment agreement) prior to the expiration of the two-year term.

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The following tables present selected historical financial information and selected pro forma combined financial information for Ionics and the Ecolochem Group. The historical results presented are not necessarily indicative of future results.

Selected Consolidated Historical Financial Data of Ionics

The selected consolidated historical financial data for Ionics as of and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 presented below were derived from Ionics' audited financial statements. The selected consolidated historical financial data for Ionics as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002 presented below were derived from Ionics' unaudited financial statements. This information should be read in conjunction with Ionics' historical financial statements and notes thereto incorporated in this Proxy Statement by reference.

	Nine Months Ended September 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(In thousands of dollars except per share amounts)							
<i>Consolidated statement of operations data:</i>							
Revenues	\$260,381	\$235,889	\$320,327	\$448,153	\$458,058	\$343,184	\$337,992
(Loss) income from continuing operations before income taxes, minority interest, and gain on sale	(28,977)	6,294	2,610	(16,640)	(312)	28,128	32,083
(Loss) income from continuing operations*	(20,078)	3,002	4,854	44,695	(694)	8,702	20,894
(Loss) earnings from continuing operations per basic share	(1.14)	0.17	0.28	2.61	(0.04)	1.16	1.30
(Loss) earnings from continuing operations per diluted share	(1.14)	0.17	0.27	2.59	(0.04)	1.14	1.28

* Includes a pre-tax gain on the sale of the Aqua Cool Pure Bottled Water business of \$8.2 million and \$102.8 million in 2002 and 2001, respectively.

	September 30,	December 31,				
	2003	2002	2001	2000	1999	1998
(In thousands of dollars)						
<i>Consolidated balance sheet data:</i>						
Current assets	\$316,505	\$342,026	\$392,660	\$268,938	\$210,885	\$205,461
Current liabilities	117,506	114,168	156,866	173,363	99,475	85,934
Working capital	198,999	227,858	235,794	95,575	111,410	119,527
Total assets	591,384	608,013	633,313	585,813	500,906	452,123
Long-term debt and notes payable	8,797	9,670	10,126	10,911	8,351	1,519
Stock						