

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

IONICS INC

CIK: **52466** | IRS No.: **042068530** | State of Incorporation: **MA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07211** | Film No.: **94528181**
SIC: **3559** Special industry machinery, nec

Business Address
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WATERTOWN MA 02172
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 1994

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
(State or other jurisdiction of
incorporation or organization)

04-2068530
(I.R.S. Employer
Identification No.)

65 Grove Street, Watertown, Massachusetts 02172
(Address of principal executive offices)
(Zip Code)

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

NONE
(Former name, former address and former fiscal year,
if changed since last report)

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

YES X NO

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

Class	Outstanding at March 31, 1994
Common Stock, Par Value \$1	6,949,556 Shares

IONICS, INCORPORATED

FORM 10-Q FOR

QUARTER ENDED MARCH 31, 1994

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PART I - FINANCIAL INFORMATION

<TABLE>

IONICS, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Dollars in thousands, except per share amounts)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Net revenue:		
Membranes and related equipment	\$28,534	\$ 20,979
Water, food and chemical supply	16,054	13,143
Consumer water products	8,447	7,036
	53,035	41,158
Costs and expenses:		
Cost of membranes and related equipment	22,262	14,426
Cost of water, food and chemical supply	11,101	9,336
Cost of consumer water products	3,975	3,485
Research and development	803	904
Selling, general and administrative	10,250	8,891
	48,391	37,042
Income from operations	4,644	4,116
Interest income	233	554
Equity income	118	136
Income before income taxes	4,995	4,806
Provision for income taxes	1,598	1,442

Net income	\$ 3,397	\$ 3,364
Earnings per share	\$.48	\$.48
Shares used in earnings per share calculations	7,070,000	7,067,000

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

</TABLE>

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<TABLE>

IONICS, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

<CAPTION>

	March 31, 1994	December 31, 1993
	<C>	<C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,879	\$ 21,534
Short-term investments	2,503	8,603
Notes receivable, current	2,581	2,505
Accounts receivable	55,007	57,214
Receivables from affiliated companies	3,509	2,944
Inventories:		
Raw materials	9,209	9,541
Work in process	4,463	3,016
Finished goods	1,550	1,369
	15,222	13,926
Other current assets	4,844	3,231
Total current assets	101,545	109,957
Notes receivable, long-term	5,002	4,919
Investments in affiliated companies	5,131	4,989
Property, plant and equipment:		
Land	1,802	1,261
Buildings	14,930	13,829
Machinery and equipment	127,772	121,792
Other, including furniture, fixtures and vehicles	19,272	18,918
	163,776	155,800
Less accumulated depreciation	(59,773)	(55,355)
	104,003	100,445
Other assets	29,169	29,252
Total assets	\$244,850	\$249,562

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable and current portion of long-term debt	\$ 270	\$ 326
Accounts payable	14,046	12,496
Obligation for purchase of Ionics RCC	-	10,974
Customer deposits	6,937	5,668
Accrued commissions	1,650	1,733
Accrued expenses	11,230	13,957
Taxes on income	1,394	928
Total current liabilities	35,527	46,082
Long-term debt and notes payable	109	109
Deferred income taxes	4,010	2,699
Other liabilities	648	591
Stockholders' equity:		
Common stock, par value \$1, 30,000,000 authorized shares; issued: 6,949,556 in 1994 and 6,945,805 in 1993	6,950	6,946
Additional paid-in capital	124,304	124,189
Retained earnings	78,971	75,574
Cumulative translation adjustments	(5,669)	(6,628)
Total stockholders' equity	204,556	200,081
Total liabilities and stockholders' equity	\$244,850	\$249,562

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

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<TABLE>

IONICS, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$000's Omitted)
(Unaudited)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	<C>	<C>
<S>		
Operating activities:		
Net income	\$ 3,397	\$ 3,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,258	3,652
Provision for losses on accounts and notes receivable	149	235
Changes in assets and liabilities:		
Notes receivable	(87)	(644)
Accounts receivable	1,860	(6,298)
Inventories	(1,248)	(1,550)
Other current assets	(1,576)	205
Investments in affiliates	(111)	(149)

Accounts payable and accrued expenses	(284)	1,073
Income taxes	1,199	967
Other	(9)	257
Net cash provided by operating activities	7,548	1,112
Investing activities:		
Additions to property, plant and equipment	(6,592)	(3,602)
Sale (purchase) of short-term investments	6,226	(842)
Payment for Ionics RCC acquisition	(11,000)	-
Net cash used by investing activities	(11,366)	(4,444)
Financing activities:		
Principal payments on current debt	(302)	(412)
Proceeds from issuance of current debt	179	57
Principal payments on long-term debt	-	(60)
Proceeds from issuance of long-term debt	-	69
Proceeds from stock option plans	118	805
Net cash (used)provided by financing activities	(5)	459
Effect of exchange rate changes on cash	168	(137)
Net change in cash and cash equivalents	(3,655)	(3,010)
Cash and cash equivalents at beginning of period	21,534	13,535
Cash and cash equivalents at end of period	\$ 17,879	\$ 10,525

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

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</TABLE>

IONICS, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly the consolidated financial position of the Company as of March 31, 1994 and December 31, 1993, the consolidated results of its operations for the three months ended March 31, 1994 and 1993 and the consolidated cash flows for the three months then ended.
2. The consolidated results of operations of the Company for the three months ended March 31, 1994 and 1993 are not necessarily indicative of the results of operations to be expected for the full year.
3. Reference is made to the Notes to Consolidated Financial

Statements appearing in the Company's 1993 Annual Report as filed on form 10-K with the Securities and Exchange Commission. There have been no significant changes in the information reported in those Notes, other than from the normal business activities of the Company, and there have been no changes which would, in the opinion of Management, have a materially adverse effect upon the Company.

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

Results of Operations

Comparison of the Three Months Ended March 31, 1994
with the Three Months Ended March 31, 1993

Revenues for the first quarter of 1994 increased 28.9% to \$53.0 million from \$41.2 million in 1993. Revenues were higher in all three business segments. The largest growth was in the Membranes and Related Equipment segment where the growth was due primarily to the acquisition of Resources Conservation Company (Ionics RCC), effective December 1, 1993.

The Water, Food and Chemical Supply segment revenues increased due primarily to strong demand for consumer products produced by the Elite Chemicals division, particularly in New England. Higher Elite Chemicals revenues were also experienced in Australia and in the United Kingdom, where the Company's newest bleach manufacturing facility began operating in the fourth quarter of 1993. Revenues also increased with the commencement in the first quarter of 1994 of a contract to provide whey processing equipment and services to Mid-America Dairymen, Inc. in the midwestern United States. The Consumer Water Products segment revenues increased due to a higher volume of bottled water and related products sales and increased sales of home water conditioners.

Cost of sales as a percentage of revenues was 70.4% in 1994 and 66.2% in 1993. The increase in 1994 occurred in the Membranes and Related Equipment segment. This increase was due to a less favorable mix between capital equipment and spare parts revenues and the continuing weakness in this segment's membrane-based capital equipment business resulting from slow bookings throughout most of 1993. The acquisition of Ionics RCC, which had gross margins (and operating expenses) below those for the traditional Membranes and Related Equipment segment, also contributed to the 1994 increase. The increase in cost of sales as a percentage of revenues for the Membranes and Related Equipment segment was

partially offset by improvements in both the Water, Food and Chemical Supply segment and the Consumer Water Products segment as increased volume and operating efficiencies in the Elite Chemicals and Aqua Cool businesses reduced the unit costs of manufacturing.

Operating expenses as a percentage of revenues were 20.8% in the first quarter of 1994, down from 23.8% in the first quarter of 1993. As noted above, Ionics RCC's operating expenses as a percentage of revenues were lower than those of the traditional Membranes and Related Equipment segment. Furthermore, the improvement reflected the absorption of relatively fixed operating expenses by increased sales volume and continued emphasis on expense controls.

Interest income decreased in the first quarter of 1994 due to lower invested balances, resulting from payment for the Ionics RCC acquisition, debt repayment of Aqua Cool Enterprises, Inc. in the second quarter of 1993 and capital spending.

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Financial Condition

Working capital increased by \$2.1 million during the first three months of 1994 and the Company's current ratio increased to 2.9 at March 31, 1994 from 2.4 at December 31, 1993. Cash provided from net income, depreciation and a reduction in short-term investments totaled \$13.9 million in the first three months of 1994 while the primary uses of cash were for the payment of the Ionics RCC acquisition obligation and capital expenditures. Significant capital expenditures were made for bottled water operations, bleach operations, trailers and other "own and operate" facilities.

At March 31, 1994 the Company had \$20.4 million in cash and short-term investments, a decrease of \$9.8 million from December 31, 1993. The Company believes that its cash and short-term investments, cash from operations, lines of credit and foreign exchange facilities are adequate to meet its currently anticipated needs.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11 - Computation of Earnings Per Share (included on Page 11 of this report).

(b) Reports on Form 8-K

The Company filed a report on Form 8-K dated February 7, 1994, reporting under Item 5 the completion of the acquisition of certain assets of Resources Conservation Company. No financial statements were required or filed.

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

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SIGNATURES

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

Date: May 13, 1994

By: /s/Arthur L. Goldstein
Arthur L. Goldstein
Chairman and Chief Executive Officer
(duly authorized officer)

Date: May 13, 1994

By: /s/Robert J. Halliday
Robert J. Halliday
Vice President, Finance and Accounting
(chief financial officer)

11 Computation of Earnings Per Share

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<TABLE>

EXHIBIT 11

IONICS, INCORPORATED

COMPUTATION OF EARNINGS PER SHARE

(Amounts in thousands except per share data)

<CAPTION>

	Three Months Ended	
	March 31,	
	1994	1993
<S>	<C>	<C>
Net income	\$3,397	\$3,364
Earnings per common and common equivalent share:		
Weighted average number of shares outstanding	6,947	6,918
Incremental shares for stock options under treasury stock method	123	149
Weighted average number of common and common equivalent shares outstanding	7,070	7,067
Earnings per common and common equivalent share	\$.48	\$.48
Earnings per common and common equivalent share - assuming full dilution:		
Weighted average number of shares outstanding	6,947	6,918
Incremental shares for stock options under treasury stock method	131	149
Weighted average number of common and common equivalent shares outstanding - assuming full dilution	7,078	7,067

Earnings per common and common
equivalent share - assuming
full dilution

\$.48

\$.48

</TABLE>

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