

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
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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.: **96663475**  
SIC: **3559** Special industry machinery, nec

Business Address  
65 GROVE ST  
WATERTOWN MA 02172  
6179262500

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 September 30, 1996

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  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 September 30, 1996

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IONICS, INCORPORATED  
FORM 10-Q FOR  
QUARTER ENDED SEPTEMBER 30, 1996  
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PART I - FINANCIAL INFORMATION

IONICS, INCORPORATED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(Amounts in thousands, except per share amounts)

<CAPTION>

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Net revenue:				
Membranes and related equipment	\$37,113	\$33,350	\$109,006	\$ 92,962
Water, food and chemical supply	29,810	16,686	79,470	49,086
Consumer products	17,588	15,148	48,780	40,280
	84,511	65,184	237,256	182,328
Costs and expenses:				
Cost of membranes and related equipment	26,280	23,910	77,453	66,590
Cost of water, food and chemical supply	20,781	11,173	53,892	32,505
Cost of consumer products	10,095	9,018	27,473	22,955
Research and development	1,256	1,030	3,701	3,054
Selling, general and administrative	16,036	12,034	46,491	35,870
	74,448	57,165	209,010	160,974
Income from operations	10,063	8,019	28,246	21,354
Interest income	61	245	353	751
Equity income	104	170	323	417
Income before income taxes	10,228	8,434	28,922	22,522
Provision for income taxes	3,375	2,765	9,544	7,545
Net income	\$ 6,853	\$ 5,669	\$ 19,378	\$ 14,977
Earnings per share	\$ .43	\$ .37	\$ 1.21	\$ 1.00
Shares used in earnings per share calculations	16,044	15,153	16,042	14,990

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

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<TABLE>

IONICS, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Amounts in thousands, except share amounts)

<CAPTION>

September 30, December 31,  
1996 1995

	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,262	\$ 9,479
Notes receivable, current	3,637	4,529
Accounts receivable	87,072	78,376
Receivables from affiliated companies	2,085	1,421
Inventories:		
Raw materials	13,984	12,640
Work in process	7,799	5,411
Finished goods	2,849	2,513
	24,632	20,564
Other current assets	9,433	8,018
Total current assets	138,121	122,387
Notes receivable, long-term	7,687	5,813
Investments in affiliated companies	4,215	4,874
Property, plant and equipment:		
Land	3,561	3,270
Buildings	30,033	26,018
Machinery and equipment	225,683	191,195
Other, including furniture, fixtures and vehicles	35,359	26,772
	294,636	247,255
Less accumulated depreciation	(113,957)	(91,369)
	180,679	155,886
Other assets	37,413	33,084
Total assets	\$368,115	\$322,044
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 16,068	\$ 4,884
Accounts payable	21,807	28,089
Customer deposits	4,803	3,131
Accrued commissions	2,268	2,184
Accrued expenses	25,505	20,384
Taxes on income	6,465	1,607
Total current liabilities	76,916	60,279
Long-term debt and notes payable	2,325	182
Deferred income taxes	5,816	7,780
Other liabilities	2,088	759
Stockholders' equity:		
Common stock, par value \$1, 30,000,000 authorized shares; issued: 15,690,355 in 1996 and 14,801,230 in 1995	15,690	14,801
Additional paid-in capital	145,950	137,587
Retained earnings	123,103	104,795
Cumulative translation adjustments	(3,386)	(3,671)
Unearned compensation	(387)	(468)
Total stockholders' equity	280,970	253,044
Total liabilities and stockholders' equity	\$368,115	\$322,044

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

</TABLE>

<TABLE>

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

<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
Operating activities:		
Net income	\$ 19,378	\$ 14,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,007	15,154
Provision for losses on accounts and notes receivable	700	477
Compensation expense on restricted stock awards	81	45
Changes in assets and liabilities:		
Notes receivable	(1,074)	(583)
Accounts receivable	(5,829)	(4,921)
Inventories	(3,668)	(2,183)
Other current assets	(709)	(561)
Investments in affiliates	658	487
Accounts payable and accrued expenses	(8,830)	(3,626)
Income taxes	6,053	2,238
Other	1,950	(802)
Net cash provided by operating activities	27,717	20,702
Investing activities:		
Additions to property, plant and equipment	(36,797)	(37,767)
Purchase of long-term investments	-	(3,000)
Sale of short-term investments	-	4,047
Net cash used by investing activities	(36,797)	(36,720)
Financing activities:		
Principal payments on current debt	(10,445)	(12,499)
Proceeds from issuance of current debt	20,385	17,303
Principal payments on long-term debt	(2,340)	-
Proceeds from stock option plans	3,330	2,959
Net cash provided by financing activities	10,930	7,763
Effect of exchange rate changes on cash	(67)	(2)
Net change in cash and cash equivalents	1,783	(8,257)
Cash and cash equivalents at beginning of period	9,479	15,062
Cash and cash equivalents at end of period	\$ 11,262	\$ 6,805

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

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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 September 30, 1996 and December 31, 1995, the consolidated results of its operations for the three and nine months ended September 30, 1996 and 1995 and the consolidated cash flows for the nine months then ended.
2. The consolidated results of operations of the Company for the three and nine months ended September 30, 1996 and 1995 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 1995 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.
4. Certain prior year amounts have been reclassified to conform to the current year presentation with no impact on net income.
5. In July 1996, the Company acquired 100% of the stock of Separation Technology, Inc. (STI) for approximately \$2.5 million through the issuance of 58,000 shares of common stock. STI is a leading supplier of membrane-based purification equipment and related services to the food industry with particular emphasis on dairy and beverage applications.

The acquisition was accounted for under the purchase method with the results of STI included from July 1, 1996. Goodwill of approximately \$4 million is being amortized on a straight-line basis over twenty years. Pro forma results of operations have not been presented, as the effect of this acquisition on the financial statements was not material.

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

### Results of Operations

Comparison of the Three and Nine Months Ended September 30, 1996 with the Three and Nine Months Ended September 30, 1995

Revenues for the third quarter of 1996 increased 29.6% to \$84.5 million from \$65.2 million in 1995. Revenues for the nine-month period increased 30.1% to \$237.3 million from \$182.3 million in the comparable period in 1995. Revenues were higher in all three business segments for both the three and nine-month periods. The largest increase in revenues for both the third quarter and the nine-month period was in the Water, Food and Chemical Supply segment.

Revenues from the Membranes and Related Equipment segment grew in both the third quarter and the nine-month period due primarily to continuing strength in the sale of ultrapure water systems to the semiconductor market. Growth was also experienced through increased sales of instrumentation and water desalting equipment during both periods. The increase in this segment was partially offset by a decrease in revenues from the sale of wastewater treatment equipment during both the quarter and nine-month period.

Revenues from the Water, Food and Chemical Supply segment increased in both periods due primarily to strength in the ultrapure water supply business. The Company's internal growth in ultrapure water supply was augmented by the acquisitions of Ahlfinger Water Company in November 1995 and Apollo Ultrapure Water Systems in January 1996. Revenues also increased in the municipal water supply and food processing businesses during both periods, primarily due to the acquisitions of Aqua Design, Inc. in January 1996 and Separation Technology, Inc. in July 1996.

Consumer Products revenues increased in both the third quarter and the nine-month period. Revenues increased in the bottled water, home water purification and bleach-based consumer products businesses during each period. These increases resulted from both increases in the customer base and the openings of three new bottled water distribution facilities in Richmond, Virginia; Cleveland, Ohio; and Providence, Rhode Island.

Cost of sales as a percentage of revenues for the third quarter was 67.6% in 1996 and 67.7% in 1995. For the nine-month period, cost of sales as a percentage of revenues was 66.9% both in 1996 and in 1995.

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In the Membranes and Related Equipment segment, the gross margin percentage improved in both the third quarter and the nine-month period. This primarily reflected an improvement in the mix of contracts, particularly within the wastewater treatment and instrumentation businesses, partially offset by a change in the mix of ultrapure water equipment contracts.

In the Water, Food and Chemical Supply segment, cost of goods sold increased as a percentage of revenues during both periods. This increase reflected the acquisition of Separation Technology, Inc. whose manufacturing costs have not yet reflected the synergies which



we believe will be available through continued integration with the other businesses within this segment. This increase also reflected increased competitive pressure within the industrial bleach market in the United Kingdom.

The Consumer Products segment experienced improvement in the gross margin percentage in both the third quarter and nine-month period. This improvement primarily reflected the achievement of certain product cost reductions, price increases and an overall improvement in the mix of consumer products sold.

Operating expenses as a percentage of revenues increased slightly in the third quarter to 20.5% in 1996 from 20.0% in 1995, reflecting a change in the mix of various selling expenses. For the nine-month period, operating expenses as a percentage of revenues of 21.2% in 1996 were approximately the same as 1995.

Interest income decreased during both the third quarter and nine-month period. This was a result of lower average invested cash balances for both periods.

#### Financial Condition

Working capital decreased by \$0.9 million during the first nine months of 1996 and the current ratio decreased to 1.8 at September 30, 1996 from 2.0 at December 31, 1995. Cash provided from net income and depreciation totaled \$38.4 million during the first nine months of 1996, while the primary uses of cash were for additions to property, plant and equipment and for payments on current debt. Significant capital expenditures were incurred to support growth in bottled water operations, bleach operations, trailers and other "own and operate" facilities.

At September 30, 1996, the Company had \$11.3 million in cash and cash equivalents, an increase of \$1.8 million from December 31, 1995. This increase was, however, offset by an increase in short-term borrowings of \$11.2 million over the corresponding period. The Company believes that its cash and cash equivalent balances, cash from operations, lines of credit and foreign exchange facilities are adequate to meet its currently anticipated needs.

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#### Forward-Looking Information

The Company's future results of operations, as well as statements contained in this Management's Discussion and Analysis which are forward-looking statements, depend upon a number of factors that could cause actual results to differ materially from management's current expectations. Among these factors are business conditions and the general economy; competitive factors, such as acceptance of new

products and price pressures; risk of nonpayment of accounts receivable; risks associated with foreign operations; and regulations and laws affecting business in each of the Company's markets.

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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 12 of this report).

#### (b) Reports on Form 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended September 30, 1996.

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

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#### SIGNATURES

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

IONICS, INCORPORATED

Date: November 13, 1996

By: /s/Arthur L. Goldstein  
Arthur L. Goldstein

Chairman and Chief Executive Officer  
(duly authorized officer)

Date: November 13, 1996

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

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(for electronic purposes only)

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<TABLE>

EXHIBIT 11

IONICS, INCORPORATED

COMPUTATION OF EARNINGS PER SHARE

(Amounts in thousands, except earnings per share)

<CAPTION>

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Net income	\$ 6,853	\$ 5,669	\$19,378	\$14,977
Earnings per common and common equivalent share:				
Weighted average number of shares outstanding	15,563	14,537	15,467	14,490
Incremental shares for stock options under treasury stock method	481	616	575	500
Weighted average number of common and common equivalent shares outstanding	16,044	15,153	16,042	14,990
Earnings per common and common equivalent share	\$ .43	\$ .37	\$ 1.21	\$ 1.00
Earnings per common and common equivalent share - assuming full dilution:				
Weighted average number of shares outstanding	15,563	14,537	15,467	14,490
Incremental shares for stock options under treasury stock method	554	677	609	583
Weighted average number of common and common equivalent shares outstanding - assuming full dilution	16,117	15,214	16,076	15,073
Earnings per common and common equivalent share - assuming full dilution	\$ .43	\$ .37	\$ 1.21	\$ .99

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