

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.

Table of Contents**Selected Financial Data**

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
Stockholders' equity	423,906	438,153	423,353	356,861	361,852	345,598

Table of Contents**Selected Historical Combined Financial Data of the Ecolochem Group**

The selected historical combined statement of earnings data for the Ecolochem Group for the fiscal years ended September 30, 2003, 2002 and 2001 and the selected historical combined balance sheet data for the Ecolochem Group as of September 30, 2003 and 2002 presented below were derived from the audited combined financial statements of the Ecolochem Group. The selected historical combined statement of earnings data for the Ecolochem Group for the fiscal years ended September 30, 2000 and 1999 and the selected historical combined balance sheet data for the Ecolochem Group as of September 30, 2001, 2000 and 1999 presented below were derived from the unaudited combined financial statements of the Ecolochem Group. This information should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this Proxy Statement.

	Year Ended September 30,				
	2003	2002	2001	2000	1999
	(In thousands of dollars)				
<i>Combined statement of earnings data:</i>					
Revenues	\$ 108,920	\$ 106,894	\$ 105,254	\$ 85,094	\$ 66,110
Earnings before income taxes	38,678	25,571	26,746	19,215	11,666
Net earnings	36,868	23,784	24,564	15,801	9,480
	September 30,				
	2003	2002	2001	2000	1999
	(In thousands of dollars)				
<i>Combined balance sheet data:</i>					
Current assets	\$ 42,314	\$ 33,798	\$ 32,074	\$ 24,179	\$ 26,178
Current liabilities	12,107	12,184	17,684	15,069	13,135
Working capital	30,207	21,614	14,390	9,110	13,043
Total assets	132,338	120,827	118,069	104,242	94,828
Long-term debt and notes payable	13,500	18,416	27,281	28,896	29,574
Stockholders equity	103,964	88,131	76,383	62,562	55,770

Table of Contents**Selected Pro Forma Combined Financial Data**

The pro forma combined statements of operations data for the periods presented give effect to the Acquisition as if it had occurred on January 1, 2002, and the pro forma combined balance sheet data give effect to the Acquisition as if it had occurred on September 30, 2003.

The selected pro forma combined information presented below has been derived from, and should read in conjunction with, the Unaudited Pro Forma Combined Condensed Financial Statements and related notes included elsewhere in this Proxy Statement.

The pro forma combined information reflects the Acquisition using the purchase method of accounting and is presented for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would actually have been reported had the Acquisition been effected during the periods presented, or that may be reported in the future.

	For the Nine Months Ended September 30, 2003	For the Year Ended December 31, 2002
(In thousands of dollars, except per share amounts)		
<i>Statement of operations data:</i>		
Revenues	\$ 340,837	\$ 427,221
(Loss) income before income taxes and minority interest	\$ (10,643)	\$ 18,390
(Loss) income from continuing operations	\$ (7,917)	\$ 9,803
(Loss) earnings from continuing operations per basic share	\$ (0.35)	\$ 0.44
(Loss) earnings from continuing operations per diluted share	\$ (0.35)	\$ 0.43
September 30, 2003		
(In thousands of dollars)		
<i>Balance sheet data:</i>		
Current assets	\$ 305,963	
Current liabilities	\$ 129,613	
Working capital	\$ 176,350	
Long-term debt and notes payable	\$ 197,297	
Stockholders equity	\$ 571,439	

Table of Contents**Comparative Per Share Information**

The following table sets forth selected historical per share information of Ionics and unaudited pro forma combined per share information after giving effect to the Acquisition, under the purchase method of accounting. You should read this information in conjunction with the selected historical financial information, included elsewhere in this Proxy Statement, and the historical financial statements of Ionics and the Ecolochem Group and related notes that are incorporated in this Proxy Statement by reference or included elsewhere in this Proxy Statement. The unaudited Ionics pro forma combined per share information is derived from, and should be read in conjunction with, the Unaudited Pro Forma Combined Condensed Financial Statements and related notes included elsewhere in this Proxy Statement.

The unaudited pro forma combined per share information does not purport to represent what the actual results or operations of Ionics and the Ecolochem Group would have been had the companies been combined or to project the combined company's respective results of operations that may be achieved after the Acquisition.

	For the	
	Nine Months Ended September 30, 2003	Year Ended December 31, 2002
	(Unaudited)	
Ionics Historical		
Per common share data:		
(Loss) income from continuing operations:		
Basic	\$ (1.14)	\$ 0.28
Diluted	(1.14)	0.27
Stockholders' equity (at period end)	23.90	
Unaudited Pro Forma Combined		
Per common share data:		
(Loss) income from continuing operations:		
Basic	(0.35)	0.44
Diluted	(0.35)	0.43
Stockholders' equity (at period end)	25.24	

Ionics has not paid any cash dividends to its stockholders, and does not anticipate paying any cash dividends in the foreseeable future.

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RISK FACTORS

By approving the Acquisition Issuance Proposal, you will be voting to approve the Acquisition itself. The Acquisition involves a high degree of risk. Before you vote to approve the Acquisition Issuance Proposal, you should carefully consider the risks described below in addition to the other information contained in or incorporated by reference into this document, including the section entitled Forward-Looking Information. The risks and uncertainties described below are not the only ones facing Ionics. Additional risks and uncertainties not presently known to Ionics or that Ionics believes are now immaterial may also impair Ionics' business, the Ecolochem Group's business or the anticipated results of the Acquisition. If any of the following risks actually occur, Ionics' business, financial condition or results of operations could be materially adversely affected and the value of Ionics common stock could decline.

Risks Associated with the Acquisition

The anticipated benefits of acquiring the Ecolochem Group may not be realized.

Ionics entered into the Purchase Agreement with the expectation that the Acquisition will result in various benefits including, among other things, enhanced revenue, profits, market presence, cost savings and operating efficiencies. Ionics expects that the Acquisition will enhance its position in the water treatment services market through the combination of its technologies, products, services and customer contacts with those of the Ecolochem Group, and will enable Ionics to broaden its customer base in the electric power and petrochemical industries. If Ionics business or the Ecolochem Group's business fails to meet the demands of the marketplace, customer acceptance of Ionics' products and services could decline, which would have an adverse effect on Ionics' results of operations and financial condition. Ionics may not realize any of these benefits and the Acquisition may result in the deterioration or loss of significant business. Costs incurred and potential liabilities assumed in connection with the Acquisition, including pending and threatened disputes, litigation and environmental liabilities, could have a material adverse effect on Ionics' business, financial condition and operating results.

In addition, Ionics may not achieve the anticipated benefits as rapidly as, or to the extent, anticipated by certain financial or industry analysts, or other analysts may not perceive the same benefits to the Acquisition as Ionics does. If these risks materialize, Ionics' stock price could be adversely affected.

Ionics may have difficulty and incur substantial costs integrating the Ecolochem Group.

Integrating the Ecolochem Group will be a complex, time-consuming and expensive process. Before the Acquisition, Ionics and the Ecolochem Group operated independently, each with its own business, products, customers, employees, culture and systems, including data management and financial systems. In addition, Ionics is currently in the process of restructuring its own business and operations.

After the closing of the Acquisition, Ionics may face substantial difficulties, costs and delays in integrating the Ecolochem Group, which may include:

perceived adverse changes in product or service offerings or customer service standards, whether or not these changes do, in fact, occur;

costs and delays in implementing common information and other systems and procedures and costs and delays caused by communication difficulties;

potential difficulty in applying Ionics' accounting controls and procedures to the members of the Ecolochem Group, which have operated as independent private companies;

charges to earnings resulting from the application of purchase accounting to the Acquisition;

diversion of management resources;

potential incompatibility of business cultures;

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potential losses of management and other key employees of Ionics or the Ecolochem Group due to perceived uncertainty in career opportunities, compensation levels and benefits;

the retention of existing customers of each company;

reduction or loss of customer orders due to the potential for market confusion, hesitation and delay; and

coordinating infrastructure operations in a rapid and efficient manner.

After the Acquisition, Ionics will seek to combine certain operations and functions using common information and communication systems, operating procedures, financial controls and human resource practices, including training, professional development and benefit programs. Ionics may be unsuccessful, or experience delays, in implementing the integration of these systems and processes.

Any one or all of these factors may cause increased operating costs, worse than anticipated financial performance or the loss of customers and employees. Many of these factors are outside the control of Ionics. The failure to timely and efficiently integrate the Ecolochem Group could have a material adverse effect on Ionics' business, financial condition and operating results. In addition, the differences between the business cultures could present significant obstacles to timely, cost-effective integration of the Ecolochem Group.

The market value of the shares of Ionics common stock issued in connection with the Acquisition may increase prior to the closing of the Acquisition and, therefore, Ionics may be perceived to have paid more for the Ecolochem Group.

The number of shares of Ionics common stock to be issued in the Acquisition was fixed at the time of the signing of the Purchase Agreement and is not subject to adjustment based on changes in the trading price of Ionics common stock before the closing of the Acquisition. Therefore, the market value of the shares of Ionics common stock issued in connection with the Acquisition will likely fluctuate through the closing of the Acquisition and thereafter. As a result, the value of the Acquisition, as reflected in the relative market price of Ionics common stock, may vary significantly from the date of execution of the Purchase Agreement, the date of this Proxy Statement and the date the Acquisition is completed. This variance may arise due to, among other things: changes in Ionics' business, operations and prospects; market assessments of the likelihood that the Acquisition will be completed; demand for water processing in its markets; and interest rates, general market and economic conditions and other factors. Substantially all of these factors are beyond Ionics' control. As a result of increases in the market price of Ionics common stock, financial or industry analysts or others may perceive that Ionics paid more for the Ecolochem Group than they believe was prudent. If this perception materializes, the trading price of Ionics common stock could be adversely affected.

If certain intangible assets acquired in the acquisition subsequently become impaired, Ionics may need to write off, or reduce the value of, those intangible assets, which (if required) would adversely impact Ionics' financial results during the periods in which they occur.

Ionics currently expects to record approximately \$183.8 million of goodwill and other intangible assets in connection with the Acquisition. Goodwill associated with the Acquisition will be required to be tested at least annually for impairment. Other intangible assets will be amortized over their estimated useful lives. If the goodwill or other intangible assets are deemed to be impaired in the future, Ionics would be required to reduce the value of those assets or to write them off completely, which would reduce Ionics' reported financial results during the periods in which such determination is made. If Ionics is required to write down or write off all or a portion of those assets, or if financial analysts or investors believe Ionics may need to take such action in the future, the prices at which Ionics common stock trades may be adversely affected.

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Ionics may not derive any income tax benefits from the tax election which it currently intends to make.

Ionics and the shareholders of Ecolochem and Ecolochem International may, if Ionics elects, join 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. If a valid election is made under Section 338(h)(10) of the Code, Ionics will generally be able to treat the acquisition of the stock of any company with respect to which such election is made as if new subsidiaries of Ionics had acquired the assets of such company in a taxable transaction for federal income tax purposes, and, as a result, after the Acquisition, the assets of such company will have a tax basis generally equal to the cash and other property paid by Ionics for such company plus any liabilities of such company that are assumed in the transaction.

The principal tax advantage of making an election under Section 338(h)(10) of the Code is that Ionics' new subsidiary or subsidiaries, as the case may be, will be able to depreciate or amortize the new federal income tax basis of depreciable or amortizable assets over time periods specified in the Code. For intangible assets, that time period is generally 15 years.

Ionics may not be eligible to make an election under Section 338(h)(10) of the Code with respect to Ecolochem, Ecolochem International or both. Currently, Ionics intends to make an election under Section 338(h)(10) of the Code only with respect to Ecolochem, but Ionics may conclude to make an election under Section 338(h)(10) of the Code with respect to Ecolochem International as well. Furthermore, even if a valid election under Section 338(h)(10) of the Code is made, the depreciation and amortization deductions with respect to certain assets acquired from the Ecolochem Group may not be available to Ionics. As a result, your decision to approve the issuance of Ionics common stock in connection with the Acquisition should not be based on any tax benefits associated with such an election or on any other tax benefits associated with the Acquisition.

If Ionics makes an election under Section 338(h)(10) of the Code, it will be required to pay additional amounts to certain of the Sellers. See the section entitled Purchase Agreement and Other Related Agreements Purchase Price and Related Adjustments beginning on page 42.

Ionics will be subject to significant influence by the former owners of the Ecolochem Group.

Following the closing of the Acquisition, Ionics anticipates that Sellers will ultimately beneficially own approximately 20% of Ionics common stock. As a result, the Sellers will have a strong influence on matters requiring approval by Ionics' stockholders, such as the election of directors and most corporate actions, including mergers and acquisitions. In addition, two members of the Ionics Board of Directors will be designated by the Sellers. These directors will have the opportunity to participate in all matters brought before the Board of Directors. Moreover, Mr. Lyman Dickerson, the President of Ecolochem, will have the opportunity to become the Chairman of the Ionics Board of Directors pursuant to the terms of the Stockholders Agreement. Collectively, these arrangements will allow the Sellers to have significant participation in matters affecting Ionics.

Future sales of Ionics common stock by the former owners of the Ecolochem Group could depress the market price of Ionics common stock.

In connection with the Acquisition, Ionics agreed to file a registration statement prior to the closing of the Acquisition to register the resale of shares of common stock to be issued to the Sellers. While the Sellers will be subject to restrictions on their ability to resell a portion of the shares of common stock that they receive in the Acquisition during the six months following the closing, they will be entitled to dispose of a significant number of shares in the public market, which could cause the market price of Ionics common stock to decrease significantly. All of the Sellers are required to enter into an agreement under which they agree not to sell more than 10% of the shares of common stock that will be issued to them in the Acquisition for a period of six months following the closing, subject to certain exceptions. Such restrictions will lapse six months after the closing of the Acquisition and the Sellers will then have no limitations on the number of shares they can sell in the public market. Following the Acquisition, the

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Sellers will ultimately own approximately 20% of Ionics' common stock. If they sell a significant number of shares of the common stock in the open market, Ionics' stock price could decline. For more information about this arrangement, see the section entitled "Purchase Agreement and Other Related Agreements," "Ancillary Agreements," "Stockholders Agreement" on page 55.

Ionics may be unable to obtain the cash needed to finance the Acquisition.

It is a condition to the closing of the Acquisition that Ionics obtain a credit facility or acceptable alternative financing to finance a portion of the cash portion of the purchase price. If Ionics is unable to do so, either party may terminate the Purchase Agreement. If the Purchase Agreement is terminated due to Ionics' inability to obtain a credit facility or acceptable alternative financing, Ionics will owe the Sellers a \$13.2 million termination fee. If the financing Ionics obtains involves the sale of equity or equity-related securities and the Sellers terminate the Purchase Agreement because the Sellers do not wish to proceed with the Acquisition upon such basis, Ionics will have to reimburse the Sellers and the Ecolochem Group for up to \$4.5 million in expenses. See the section entitled "Purchase Agreement and Other Related Agreements," "Fees" beginning on page 51.

Ionics plans to obtain new credit facilities to finance the cash portion of the purchase price. Ionics has entered into a commitment letter with a group led by UBS Securities LLC, however, the commitment of the group to enter into the new credit facilities is subject to certain conditions. Ionics cannot ensure that such conditions will be met and that Ionics will be able to close the proposed credit facilities. If Ionics is unable to obtain the credit facilities, Ionics will need to obtain another credit facility or acceptable alternative financing for a portion of the cash portion of the purchase price. Ionics may not be able to obtain another credit facility or acceptable alternative financing and even if Ionics is able to do so, the terms of such facility or financing may be less favorable than those offered by the group led by UBS Securities LLC.

The debt Ionics will incur in connection with the Acquisition creates financial and operating risks that could limit Ionics' operating flexibility and growth.

In connection with the Acquisition, Ionics intends to obtain new credit facilities. Ionics expects that the terms of the new credit facilities will contain provisions that limit Ionics' ability to incur additional indebtedness in the future and place other restrictions on Ionics' business. Ionics may not be able to repay any current or future debt on a timely basis, depending on its future operating results. Ionics will be required to devote increased amounts of its cash flow to service indebtedness incurred in connection with the Acquisition and incurred in the future. This could require Ionics to modify, delay or abandon its capital expenditures and other investments necessary to implement its business plan.

The Acquisition may result in a loss of customers, strategic partners and suppliers.

The Acquisition may have the effect of disrupting customer relationships. Some customers or potential customers of Ionics and the Ecolochem Group may delay or alter buying patterns during the pendency of and following the Acquisition as they evaluate the likelihood of successful integration of the Ecolochem Group's business following the Acquisition. Other customers may seek alternative sources of products or services after the announcement of the Acquisition due to, among other reasons, a desire not to do business with Ionics or perceived concerns that Ionics may not continue to support certain products or services. In addition, by increasing the breadth of Ionics' business, the Acquisition may make it more difficult for Ionics to enter into relationships with customers and strategic partners, some of whom may view Ionics, following the Acquisition, as a more direct competitor than it was prior to the Acquisition. Therefore, Ionics could experience some customer attrition by reason of announcement of the Acquisition or after the Acquisition.

In addition, certain customers of the Ecolochem Group have the right to terminate their agreements with the Ecolochem Group as a result of the Acquisition. Some or all of those customers may exercise that right, resulting in the loss of related revenue and profits. The Sellers indemnification obligations with

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respect to any such terminations may not fully compensate Ionics for the loss of those customers or the related revenue and profit.

Difficulties in integrating operations could also result in the loss of strategic partners and suppliers and potential disputes or litigation with customers, strategic partners, suppliers, resellers or others. There can be no assurance that any steps by management to counter such potential increased customer, strategic partner or supplier attrition will be effective.

Failure by management to control customer, strategic partner and supplier attrition could have a material adverse effect on Ionics' business, financial condition and operating results.

Ionics will depend on key personnel of both Ionics and the Ecolochem Group, the loss of whom could harm Ionics' business.

The loss of key personnel of Ionics or the Ecolochem Group could adversely affect Ionics' ability to manage its business. Ionics believes that the continued service of its executive officers and the executive officers of the Ecolochem Group will be important to Ionics' future growth and competitiveness. At the closing, Ionics will enter into an employment agreement with Mr. Lyman Dickerson, the President of Ecolochem. This agreement is intended to provide Mr. Lyman Dickerson with sufficient incentive to remain employed by Ionics. However, it cannot be assured that he will remain employed by Ionics. In addition, Ionics may be unable to retain other key personnel of Ionics or the Ecolochem Group who are critical to its success, resulting in disruption of operations, loss of key information, expertise or know-how, as well as unanticipated additional recruitment and training costs.

The employees of Ionics and the Ecolochem Group are entitled to voluntarily terminate their relationship with Ionics or the Ecolochem Group, typically without any, or with only minimal, advance notice. The process of finding additional trained personnel to carry out Ionics' strategy could be lengthy, costly and disruptive. Ionics might not be able to retain the services of all of Ionics' or the Ecolochem Group's key employees or a sufficient number of them to execute its plans. In addition, Ionics might not be able to continue to attract new employees as required.

The loss of the services of any member of Ionics or the Ecolochem Group's management team, or of any other key employee, could divert management's time and attention, increase Ionics' expenses and adversely affect its ability to conduct its business efficiently.

Substantial expenses will be incurred and payments made even if the Acquisition is not completed.

The Acquisition may not be completed. Whether or not the Acquisition is completed, Ionics will incur substantial expenses in pursuing the Acquisition, including:

Financial advisory fees (certain of which are conditioned upon the consummation of the Acquisition) and expenses;

Fees and expenses incurred in connection with the proposed financing of the Acquisition; and

Costs and expenses for services provided by Ionics' lawyers, accountants and other advisors.

If the Acquisition is completed, the transaction costs and expenses attributable to advisory, legal and accounting services incurred by Ionics will be capitalized as a component of the purchase price.

Ionics expects to charge certain other transaction costs and expenses during the periods in which they are incurred, which will reduce earnings or increase losses during those periods. Ionics might not be able to manage these Acquisition-related costs effectively, and they could be higher than are currently estimated. If these costs are not managed effectively, Ionics' business operations, financial results and stock price could be adversely affected.

The costs and expenses Ionics incurs in connection with the Acquisition, other than certain fees payable to Ionics' financial advisor, must be paid even if the Acquisition is not completed. If the Acquisition is not completed, these expenses will reduce earnings or increase losses during the period in

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which it is determined the Acquisition will not be completed. In addition, under certain circumstances if the Acquisition is not completed, Ionics may be required to pay a termination fee of up to \$13,200,000 or in other instances to pay the Sellers' reasonable costs and expenses up to a maximum of \$4.5 million. See the section entitled "Purchase Agreement and Other Related Agreements - Fees" beginning on page 51.

Failure to complete the Acquisition could cause Ionics' stock price to decline.

If the Acquisition is not completed for any reason, Ionics' stock price may decline to the extent that the current market price reflects a market assumption that the Acquisition will be completed or the market's perceptions why the Acquisition was not consummated. In addition, Ionics' stock price may decline because costs related to the Acquisition, such as legal, accounting and certain financial advisor fees, must be paid even if the Acquisition is not completed, adversely affecting Ionics' earnings during the period for which such costs are recognized.

The success of Ionics' strategic plan to grow sales and develop relationships internationally may be limited by risks related to conducting business in international markets.

Although both Ionics and the Ecolochem Group have experience marketing and distributing their products and services and developing strategic relations in Europe and other foreign markets, part of Ionics' strategy will be to increase sales and build additional relationships in the U.S., Europe and other foreign markets. Risks inherent in marketing, selling and developing relationships in European and other foreign markets include those associated with:

Economic conditions in those markets, including fluctuations in the relative values of the U.S. dollar and foreign currencies;

Taxes and fees imposed by foreign governments that may increase the cost of products and services; and

Laws and regulations imposed by individual countries and by the European Union and other governmental bodies.

Failure of any of the members of the Ecolochem Group to be a pass-through entity for United States federal and other tax purposes could increase the cost of the Acquisition to Ionics.

The Sellers have represented in the Purchase Agreement that each of the members of the Ecolochem Group is a pass-through entity for United States federal income tax purposes. Specifically, the Sellers have represented that each of Ecolochem and Ecolochem International is a Subchapter S Corporation under the Code, and that each of Moson Holdings and Ecolochem S.A.R.L. is treated as a partnership under the Code for federal tax purposes. Accordingly, except in limited circumstances, the Ecolochem Group does not, and has not for a substantial period, paid income taxes at the entity level either to the United States or to many state and local jurisdictions (with certain exceptions). If it were ultimately determined that any member of the Ecolochem Group was not a valid pass-through entity for tax purposes, that entity could be subject to tax, penalties, additions to tax and interest for prior periods. The Sellers are required to indemnify Ionics for any taxes attributable to periods prior to the Acquisition, but there can be no assurance that any such amount will actually be paid. Any significant tax, penalties, additions to tax and interest for prior periods which Ionics pays and for which Ionics is not indemnified by the Sellers could have a material adverse effect on Ionics' business, financial condition and operating results.

Ionics may have difficulty establishing appropriate controls and procedures on a timely basis with respect to the Ecolochem Group's financial reporting as subsidiaries of Ionics

Ionics has been implementing a number of measures and procedures to ensure that its disclosure controls and procedures and internal controls over financial reporting are effective. The Acquisition will add significant business units to Ionics' operations, which, prior to the Acquisition were operated as private

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businesses not subject to the various reporting obligations imposed on publicly traded companies. Ionics will be required to establish appropriate controls and procedures in accordance with Ionics' policies and procedures with respect to the Ecolochem Group's financial reporting as subsidiaries of Ionics. Failure to establish those controls and procedures in a timely manner, or any failure of those controls and procedures once established, could adversely impact Ionics' public disclosures regarding its business, financial condition or operating results, which may adversely impact the price of Ionics common stock.

The Acquisition will make Ionics a leveraged company subject to interest rate risks.

As a result of the Acquisition, Ionics will incur substantial additional debt (estimated at \$175 million), with variable interest rates tied to prime rates or other indices. Ionics will bear the risk of interest rate fluctuations during the seven-year term of the proposed financing.

Risks Associated with Ionics' and the Ecolochem Group's Businesses

For risks related to Ionics' business, please see the section entitled "Risks and Uncertainties" contained in Ionics' Annual Report on Form 10-K for the year ended December 31, 2002, as amended, and the section labeled "Quantitative and Qualitative Disclosures About Market Risks" in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, both of which are incorporated by reference into this Proxy Statement. Ionics believes that the Ecolochem Group's business is subject to the same risks as the Ultrapure Water group of Ionics' business.

In addition, the Ecolochem Group's business is subject to the following risk:

The results of operations of the Ecolochem Group tend to fluctuate because of the weather conditions that affect its customers.

Demand for the mobile water treatment services offered by the Ecolochem Group tends to increase during periods of severe hot or cold weather resulting in increased revenues and earnings. The absence of severe weather may adversely impact the revenue and operating results of the Ecolochem Group.

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FORWARD-LOOKING STATEMENTS

Certain statements and assumptions contained, or incorporated by reference, in this Proxy Statement constitute forward-looking statements. These statements include those that predict, forecast, indicate or imply future results, performance or achievements. These forward-looking statements also include statements as to:

the benefits of the Ecolochem acquisition to Ionics;

future financial, operating and marketing performance, plans and initiatives of Ionics, the Ecolochem Group, or the combined businesses following the Acquisition; and

the anticipated closing date of the Acquisition.

Any statements contained in this Proxy Statement, including statements to the effect that Ionics or the Ecolochem Group or their respective management believes, expects, anticipates, plans, may, will, projects, continues, or estimates or statements concerning potential or other variations thereof or comparable terminology or the negative thereof, that are not statements of historical fact should be considered forward-looking statements.

These forward-looking statements are based on current views and assumptions and are neither promises nor guarantees but are subject to risks, uncertainties and other factors that could cause actual results to differ materially from current expectations as described in such forward-looking statements. In connection with the forward-looking statements appearing in this Proxy Statement, you should carefully consider the matters discussed under the caption **Risk Factors** beginning on page 18, and the other risk factors described in Ionics' filings with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2002, as amended.

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VOTING AND PROXIES

Who May Vote at the Special Meeting

Only stockholders of record as of the close of business on December 22, 2003 (the Record Date) are entitled to notice of and to vote at the Special Meeting and any adjournments thereof. As of the close of business on the Record Date, the outstanding stock of Ionics entitled to vote consisted of 17,885,286 shares of common stock, \$1.00 par value per share. The holders of the outstanding shares of Ionics common stock are entitled to one vote per share with respect to each matter submitted to stockholders at the Special Meeting.

How to Vote

Stockholders may vote in person or by proxy. Execution of a proxy will not affect a stockholder's right to attend the meeting and vote in person. All shares represented by valid proxies received by the Clerk of Ionics prior to the meeting will be voted as specified in the proxy; if no specification is made and if discretionary authority is conferred by the stockholder, the shares will be voted FOR each of the proposals.

Ionics stockholders are requested to complete, date and sign the enclosed proxy card and promptly return it in the accompanying envelope. Ionics stockholders may vote in person at the Special Meeting by delivering the completed proxy card at the meeting or by using written ballots that will be available to any Ionics stockholder who desires to vote in person at the Special Meeting. Ionics stockholders who are beneficial owners of shares held in street name by a broker, trustee, bank or other nominee holder on behalf of such stockholder may vote in person at the meeting by obtaining a proxy from the nominee holding the Ionics shares. In addition, such Ionics stockholders may vote by proxy by completing and signing a voting instruction card provided to them by the nominee holding the Ionics shares.

How to Change Your Vote

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.

Quorum and Vote Required

The presence, in person or by properly executed proxy, of the holders of at least a majority of the issued and outstanding shares of Ionics common stock entitled to vote at the Special Meeting will constitute a quorum. If a quorum is not present, it is expected that the meeting will be adjourned or postponed to enable Ionics to solicit additional proxies. If a new record date is set for the adjourned meeting, then a new quorum will have to be established. Approval of each of the proposals described in this Proxy Statement, other than the Charter Amendment Proposal, requires the affirmative vote of the holders of at least a majority of the shares of Ionics common stock present in person or represented by properly executed proxy at the Special Meeting and voting on such proposal. The Charter Amendment Proposal requires the affirmative vote of the holders of at least a majority of the issued and outstanding shares of Ionics common stock entitled to vote at the Special Meeting. None of the proposals is contingent upon the approval of any other proposal presented at the Special Meeting. Votes cast by proxy or in person at the Special Meeting will be tabulated by the election inspectors appointed for the meeting and will determine whether or not a quorum is present.

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The proposals to be considered at the Special Meeting are of great importance to Ionics. Accordingly, you are urged to read and carefully consider the information presented in this Proxy Statement and to complete, date, sign and promptly return the enclosed proxy in the enclosed postage-paid envelope.

Abstentions and Broker Non-Votes

The election inspectors will treat abstentions and broker non-votes as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Neither abstentions nor broker non-votes are counted for purposes of determining the number of shares voting on a particular matter submitted to the stockholders for a vote. Neither abstentions nor broker non-votes are treated as having been voted for purposes of determining the approval of any such matter. A broker non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. Broker non-votes are not considered voted for the particular matter. Abstentions and broker non-votes will have the practical effect of reducing the number of affirmative votes required to achieve a majority for approval of the Acquisition Issuance Proposal, the Option Plan Increase Proposal and the Restricted Stock Proposal by reducing the total number of shares from which the majority is calculated.

Under the rules of the NYSE, nominees holding shares of Ionics common stock for beneficial owners will not have discretionary authority to vote shares on the Acquisition Issuance Proposal, the Option Plan Increase Proposal or the Restricted Stock Proposal in the absence of voting instructions from the beneficial owners with respect to such proposals. These nominees will, however, have discretionary authority to vote shares on the Charter Amendment Proposal in the absence of voting instructions from the beneficial holders with respect to such proposal.

Other Meeting Matters and Adjournment

The Ionics Board of Directors does not know of any matters other than those described in the notice of the Special Meeting that are to come before the Special Meeting. If any other matters are properly brought before the Special Meeting, including, among other things, a motion to adjourn or postpone the Special Meeting to another time and/ or place for the purpose of soliciting additional proxies in favor of the Acquisition Issuance Proposal or to permit the dissemination of information regarding material developments relating to the Acquisition Issuance Proposal or otherwise germane to the Special Meeting, one or more persons named in the Ionics form of proxy will vote the shares represented by such proxy upon such matter as determined in their discretion. If it is necessary to adjourn the Special Meeting, no notice of the time and place of the adjourned meeting is required to be given to Ionics stockholders other than the announcement of such time and place at the Special Meeting. At any subsequent reconvening of the Special Meeting, all proxies will be voted in the same manner as such proxies would have been voted at the original convening of the meeting (except for any proxies which theretofore have been effectively revoked or withdrawn). The affirmative vote of at least a majority of the shares of common stock entitled to vote, present or represented in person or by proxy, and voting at the Special Meeting although less than a quorum, is required to approve such adjournment.

Appraisal Rights

Stockholders who do not vote in favor of the proposals described in this Proxy Statement will not be entitled to dissenter's or appraisal rights. Accordingly, Ionics will not make special provisions for stockholders to enforce such rights.

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THE ACQUISITION ISSUANCE PROPOSAL

PROPOSAL TO APPROVE THE ISSUANCE OF UP TO 4,905,660 SHARES OF IONICS COMMON

STOCK IN CONNECTION WITH THE ACQUISITION OF THE ECOLOCHEM GROUP

This section describes material aspects of the Acquisition, including the Purchase Agreement and the Stockholders Agreement. While Ionics believes that the description covers the material terms of the Acquisition, the Purchase Agreement and the Stockholders Agreement, this summary may not contain all of the information that is important to you. You should read carefully this entire document and the other documents referred to in this Proxy Statement for a more complete understanding of the Acquisition, the Purchase Agreement and the Stockholders Agreement.

Ionics stockholders are being asked to consider and act upon a proposal to approve the issuance of up to 4,905,660 shares of Ionics common stock in connection with the Acquisition. The Purchase Agreement provides for the acquisition of all the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group for \$200,000,000 in cash and 4,905,660 shares of Ionics common stock, subject to adjustment as provided in the Purchase Agreement. The corporate governance rules of the NYSE require that Ionics obtain stockholder approval prior to the issuance of common stock in connection with the Acquisition. Receipt of the approval of the Acquisition Issuance Proposal by Ionics stockholders is also a condition to the closing of the Acquisition. The Acquisition will not be consummated unless the Acquisition Issuance Proposal is approved.

THE ACQUISITION

Background of the Proposed Acquisition

During November 2002, Ecolochem engaged Needham & Company, Inc. as its financial advisor to assist in the exploration of strategic alternatives for the Ecolochem Group. With the assistance of its financial advisor, Ecolochem prepared and distributed a descriptive memorandum regarding the Ecolochem Group to potentially interested parties. Ionics received a copy of the descriptive memorandum in May 2003.

On April 25, 2003, Douglas R. Brown, Ionics President and current Chief Executive Officer, and Theodore G. Papastavros, Ionics Executive Vice President and Treasurer, met in New York, New York with Lyman B. Dickerson, Ecolochem's President, and expressed an interest in acquiring the Ecolochem Group.

On May 8, 2003, Ionics and the Ecolochem Group entered into a mutual non-disclosure agreement.

On May 8, 2003, senior executives from Ionics, including Mr. Brown, Arthur L. Goldstein (Ionics Chairman and then Chief Executive Officer), John F. Curtis (who became Ionics Vice President, Strategy & Operations on August 28, 2003), William J. McMahon (Ionics Vice President, Ultrapure Water Group) and Thomas A. Heredia (an executive in Ionics Ultrapure Water Group), met at the offices of Williams Mullen (Ecolochem's legal co-counsel) in Virginia Beach, Virginia, with senior executives of the Ecolochem Group, including Mr. Lyman Dickerson, Douglas G. Dickerson (Ecolochem's Secretary and Treasurer), J. Roger Taylor (Ecolochem's Vice President and Chief Operating Officer), Mary S. Landon (Ecolochem's Chief Financial Officer) and Kenneth R. Schmidt (Ecolochem International's Managing Director of Operations), together with the representatives from Ecolochem's financial advisor and legal counsel. At this meeting, Ecolochem presented information regarding its business, operations, financial condition and performance, and strategy. The parties also discussed the merits of a possible business combination.

By letter dated May 8, 2003, Ecolochem's financial advisor provided Ionics with information regarding the process for submitting proposals to acquire the Ecolochem Group and a draft purchase agreement.

By letter dated May 23, 2003, Ionics submitted to Ecolochem's financial advisor a proposal to acquire the Ecolochem Group.

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Between May 23, 2003 and June 6, 2003, Mr. Brown held numerous discussions with representatives from Ecolochem's financial advisor regarding the structure and terms of Ionics' acquisition proposal and certain additional information regarding Ionics' proposal.

By letter dated June 6, 2003, Ionics provided Ecolochem's financial advisor with clarification of certain aspects of the structure and terms of Ionics' acquisition proposal and outlines of Ionics' preliminary comments on the draft purchase agreement and of certain matters relating to the shares of Ionics common stock proposed to be issued in the Acquisition.

Between June 6, 2003 and July 1, 2003, Mr. Brown held numerous discussions with representatives from Ecolochem's financial advisor regarding Ionics' proposal.

On June 16, 2003, Mr. Brown and Mr. Lyman Dickerson met in Orlando, Florida to discuss Ionics' interest in acquiring the Ecolochem Group.

By letter dated July 1, 2003, Ionics provided Ecolochem's financial advisor with further clarification of Ionics' acquisition proposal.

By letter dated July 8, 2003, Ecolochem's financial advisor delivered to Ionics a draft term sheet setting forth proposed terms for Ionics acquisition of the Ecolochem Group.

On July 17, 2003, Mr. Brown, together with representatives from Goldman Sachs (Ionics' financial advisor) and Testa, Hurwitz & Thibault, LLP (Ionics' legal counsel), met with Mr. Lyman Dickerson and representatives from Needham & Company and Williams Mullen and Cravath, Swaine & Moore LLP (Ecolochem's legal co-counsel) in New York, New York to discuss the structure and terms of a possible acquisition of the Ecolochem Group by Ionics.

On July 21, 2003, Ionics delivered a revised term sheet to Ecolochem and its financial and legal advisors. On July 21, 2003, senior executives of Ionics and Ecolochem, together with their respective financial and legal advisors, negotiated the terms of the Acquisition and the term sheet via a series of conference calls.

On July 24 and 25, 2003, Mr. Brown and Mr. Lyman Dickerson, together with representatives of the parties' financial advisors, met at the offices of Needham & Company in New York, New York to negotiate the terms of the Acquisition and the term sheet.

On July 25, 2003, Ionics and Messrs. Lyman Dickerson and Douglas Dickerson entered into a letter of intent with respect to the proposed acquisition of the Ecolochem Group by Ionics.

On August 13, 2003, Mr. Lyman Dickerson met with members of Ionics' Board of Directors. At a meeting held on August 14, 2003, Mr. Lyman Dickerson made a presentation regarding the Ecolochem Group to Ionics' Board of Directors.

From July 28, 2003 through November 18, 2003, each the parties and its respective financial, legal, accounting, tax and other advisors conducted due diligence reviews of the other party, which included numerous meetings, conference calls and site visits. On August 15, 2003, senior executives of Ionics, including Messrs. Brown, Curtis, McMahon and Heredia, Daniel M. Kuzmak (Ionics' Vice President and Chief Financial Officer) and Stephen Korn (Ionics' Vice President and General Counsel), together with representatives from Ionics' financial, legal and accounting advisors, met at the offices of Williams Mullen in Virginia Beach, Virginia, with senior executives of Ecolochem, including Messrs. Lyman Dickerson, Douglas Dickerson, Taylor and Schmidt, Ms. Landon, Douglas J. Schmitt (Ecolochem's Vice President and Director of Sales and Marketing), William S. Miller (Ecolochem's Vice President and Senior Advisor), Patricia A. Bradt (Ecolochem's Vice President, Logistics) and other Ecolochem personnel, together with representatives from Ecolochem's financial, legal and accounting advisors, to conduct due diligence reviews of the Ecolochem Group. At these meetings, the Ecolochem Group presented detailed information regarding its business, operations, financial condition and performance, and strategy.

At meetings held at the offices of Testa, Hurwitz & Thibault, LLP in Boston, Massachusetts, on September 10 and 11, 2003, senior executives of Ionics, including Messrs. Brown, Curtis, Kuzmak, Korn

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and McMahon, Ed Cichon (Ionics Vice President, Equipment Business Group), Alan Crosby (Ionics Vice President, Consumer Water Group), Michael Routh (Ionics Vice President, Instruments Business Group), and J. Kevin Duffy (Ionics Tax Director), together with Ionics financial, legal, tax and accounting advisors, made presentations regarding Ionics business, operations, financial condition and performance, and strategy to Mr. Lyman Dickerson and Ecolochem's financial, legal and accounting advisors.

During late September 2003, Ecolochem's legal counsel delivered drafts of the purchase agreement and stockholders agreement to Ionics and its legal counsel.

On October 14, 2003, Ionics legal counsel delivered lists of issues regarding the draft purchase agreement and stockholders agreement to Ecolochem's financial advisor and legal counsel.

On October 18, 2003, Ionics legal counsel delivered revised drafts of the purchase agreement and stockholders agreement to Ecolochem's financial advisors and legal counsel.

From October 21, 2003 through November 18, 2003, the parties and their respective financial advisors and legal counsel negotiated the terms and conditions of the definitive purchase agreement, stockholders agreement and other ancillary agreements. These negotiations were conducted in a series of meetings in New York, New York and Boston, Massachusetts, and via conference calls. These negotiations covered all aspects of the proposed acquisition.

On October 24, 2003, Ionics and Messrs. Lyman Dickerson and Douglas Dickerson entered into a letter extending the exclusivity period contemplated by the letter of intent to November 3, 2003.

On November 18, 2003, the parties entered into the definitive purchase agreement. On November 19, 2003, the parties issued a joint press release announcing the signing of the purchase agreement.

Reasons for the Proposed Acquisition

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 approved the Acquisition, the purchase agreement, the stockholders agreement and the transactions contemplated thereby. The Ionics Board of Directors unanimously recommends that holders of Ionics common stock vote **FOR** approval of the proposal to approve the issuance of up to 4,905,660 shares of Ionics common stock pursuant to the purchase agreement.

In evaluating and approving the Acquisition and recommending that the holders of Ionics common stock vote **FOR** the Acquisition Issuance Proposal, the Ionics Board of Directors consulted with Goldman Sachs and Testa, Hurwitz & Thibault, LLP, and considered a number of factors, including the following:

The Acquisition reinforces Ionics strategic focus on water treatment services generating predictable recurring revenue. By acquiring the Ecolochem Group, Ionics expects to add a leading provider of emergency mobile water treatment services, build its recurring revenue, service-based business, and add a complementary portfolio of build-own-operate facilities. The Acquisition will expand Ionics presence in the markets for water treatment services for the electric power and petrochemical industries in the U.S. and Europe, which are two markets in which Ionics has sought to expand.

The Acquisition offers Ionics opportunities to realize sales and operating synergies. These include opportunities to increase revenue, including by cross-selling products and services to the complementary customer bases of the two businesses, to expand Ionics geographic sales coverage and to use Ionics technology and products in the Ecolochem Group's services.

The Ionics Board of Directors noted that the purchase price for the Acquisition represented a multiple of the Ecolochem Group's latest 12 months earnings before interest, taxes and depreciation and amortization excluding all extraordinary/non-recurring/one-time items (EBITDA) and latest 12 months earnings before interest and taxes excluding all extraordi-

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nary/non-recurring/one-time items (EBIT) for the fiscal year ended September 30, 2003 that compared favorably to multiples of EBITDA and EBIT paid in other comparable transactions.

The structure of the Acquisition permits Ionics to make a tax election that, if made, is expected to provide Ionics significantly greater tax savings over time than the initial additional cost incurred as a result of making the election. The Board of Directors noted that, for Ionics to realize the full benefit from that election, certain conditions must be satisfied. The Purchase Agreement permits Ionics to substitute cash for shares of common stock valued at \$26.50 per share to satisfy one of these conditions.

Based on the projected operating results of Ionics and the Ecolochem Group and the consideration to be paid in the Acquisition, 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 membership interests of the Ecolochem Group is fair from a financial point of view to Ionics. See the section entitled The Acquisition Opinion of Ionics Financial Adviser beginning on page 32.

The Acquisition presents opportunities for economies of scale and cost savings, particularly in connection with employee benefits and insurance.

The Ionics Board of Directors considered information regarding the business, operations, assets, financial condition, operating results and prospects of Ionics.

The Ionics Board of Directors considered the results of the reviews of the business, operations, assets, financial condition, operating results and prospects of the Ecolochem Group conducted by Ionics management and Ionics financial, legal, accounting, tax and other advisors.

The Ionics Board of Directors considered the terms and conditions of the Purchase Agreement, including the structure of the Acquisition, the form and amount of the purchase price, the scope of the parties representations and warranties, covenants and indemnities, the conditions to the closing of the Acquisition, the provisions relating to the financing of the cash portion of the consideration to be paid in the Acquisition, the restrictions on Ionics ability to pursue and consummate certain transactions that may interfere with the completion of the Acquisition, the rights of the parties to terminate the Purchase Agreement, and the situations in which Ionics would be required to pay a termination fee or to reimburse the Ecolochem Group for its expenses if the Purchase Agreement were to be terminated.

The Ionics Board of Directors considered the terms and conditions of the Stockholders Agreement, including the addition of Mr. Lyman Dickerson and another person designated by the Sellers to the Ionics Board of Directors, the situations in which Mr. Lyman Dickerson would be entitled to become Chairman of the Board of Ionics, the voting rights of the Sellers as Ionics stockholders, the restrictions on transfer and standstill provisions, and the registration rights granted to the Sellers.

Mr. Lyman Dickerson will be employed as Vice President of Ionics Water Systems Division under the terms and conditions of his proposed employment agreement.

The Ionics Board of Directors considered Ionics arrangements regarding the financing for a significant portion of the cash to be paid in the Acquisition, including the terms and conditions of the commitment Ionics received for the financing and the ramifications to Ionics if it fails to obtain the necessary financing.

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The Ionics Board of Directors considered various other risks associated with the Acquisition, including that the potential benefits of the Acquisition may not be realized, that the integration of the businesses will require significant time and effort by Ionics management, that Ionics may not be able to retain key employees of the Ecolochem Group, and the costs associated with pursuing the Acquisition if it were not to be completed.

The Ionics Board of Directors concluded that, on balance, the potential benefits to Ionics and its stockholders of the Acquisition outweighed the potential disadvantages and risks associated with the Acquisition. The foregoing discussion of the information and factors considered by the Ionics Board of Directors is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of the Acquisition, the Ionics Board of Directors did not find it practicable to, and did not quantify or otherwise assign relative weight to, the specific factors considered in reaching its determination. Instead, the Ionics Board of Directors conducted an overall analysis of the factors described above, including summaries of discussions of Ionics management with Ionics legal, financial, accounting, tax and other advisors. In considering the factors described above, individual directors may have given different weights to different factors.

Recommendation of the Ionics Board of Directors and Vote Required

The Board of Directors unanimously recommends that you vote FOR the Acquisition Issuance Proposal. The Ionics Board of Directors has unanimously determined that the issuance of shares of Ionics common stock in the Acquisition is advisable and in the best interests of Ionics and its stockholders. This proposal requires the affirmative vote of a majority of the outstanding shares of Ionics common stock present or represented by proxy at the Special Meeting. 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 to be voted on by Ionics stockholders.

Opinion of Ionics Financial Adviser

Goldman Sachs rendered 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 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 connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the Purchase Agreement;

Annual Reports to stockholders and Annual Reports on Form 10-K of Ionics for the five years ended December 31, 2002;

audited financial statements for the Ecolochem Group for the three fiscal years ended September 30, 2003;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Ionics;

certain other communications from Ionics to its stockholders;

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certain internal financial analyses and forecasts for the Ecolochem Group prepared by its management; and

certain internal financial analyses and forecasts for Ionics and for the Ecolochem Group prepared by management of Ionics (the Forecasts).

Goldman Sachs also held discussions with members of the senior management of Ionics and the Ecolochem Group regarding their assessment of the strategic rationale for, and the potential benefits of, the Acquisition, including the potential benefits associated with an election under Section 338(h)(10) of the Code, and the past and current business operations, financial condition and future prospects of their respective companies. In addition, Goldman Sachs reviewed the reported price and trading activity for Ionics common stock, compared certain financial and stock market information for Ionics and certain financial information for the Ecolochem Group with similar financial and stock market information for certain other companies the securities of which are publicly traded, and reviewed the financial terms of certain recent business combinations in the industrial water treatment industry specifically and in other industries generally and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, tax and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering the opinion described above. In that regard, Goldman Sachs assumed with Ionics consent that the Forecasts were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Ionics. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any derivative or off-balance-sheet assets and liabilities) of Ionics or the Ecolochem Group or any of their respective subsidiaries and Goldman Sachs was not furnished with any such evaluation or appraisal. Goldman Sachs also assumed that all governmental, regulatory, or other consents and approvals necessary for the consummation of the Acquisition would be obtained without any adverse effect on Ionics or the Ecolochem Group or on the expected benefits of the Acquisition in any way material to its analysis. The Goldman Sachs opinion does not address the underlying business decision of Ionics to engage in the Acquisition. In addition, Goldman Sachs did not and does not express any opinion as to the prices at which shares of Ionics common stock will trade.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs. The order of analyses described does not represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before November 18, 2003 and is not necessarily indicative of current market conditions.

Selected Companies Analysis. Goldman Sachs reviewed and compared certain financial information for Ionics to corresponding financial information, ratios and public market multiples for the following publicly traded corporations in the filtration industry:

Calgon Carbon;

CLARCOR;

CUNO;

Donaldson;

ESCO Technologies;

Millipore;

Pall;

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Suez;

Veolia Environment; and

Zenon Environmental.

Although none of the selected companies is directly comparable to Ionics or the EcoloYLE="margin: 0">