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 þ

Filed by a party other than the Registrant o

Check the appropriate box:

þ Preliminary Proxy Statement
o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o 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):

o No fee required.

þ 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

(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 , 200 .

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 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

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.

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

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 dissenter s 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 materials 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

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

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

Standstill (See page 55)

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

Registration Rights (See page 54)

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

Certain Restrictions on Voting and Transfers (See page 55)

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

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

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

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

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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)						
Consolidated statement of operations data:							
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, 2003	December 31, 2002	2001	2000	1999	1998
	(In thousands of dollars)					
Consolidated balance sheet data:						
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

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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)				
Combined statement of earnings data:					
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)				
Combined balance sheet data:					
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

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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)	
Statement of operations data:		
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)
Balance sheet data:	
Current assets	$305,963
Current liabilities	$129,613
Working capital	$176,350
Long-term debt and notes payable	$197,297
Stockholders equity	$571,439

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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.

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 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 potentia 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 & Thibeault, 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 & Thibeault, 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 & Thibeault, 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;

Suez;

Veolia Environment; and

Zenon Environmental.

Although none of the selected companies is directly comparable to Ionics or the Ecolochem Group, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Ionics.

Goldman Sachs also calculated and compared various financial multiples and ratios based on information it obtained from SEC filings and Institutional Broker Estimate System, or IBES, median estimates. The multiples and ratios of Ionics and the selected companies were calculated using the respective closing prices of their common stock on November 14, 2003. The multiples and ratios of Ionics and the Ecolochem Group were based on information provided by IBES median estimates and audited combined financial statements of the Ecolochem Group for the fiscal year ended September 30, 2003. With respect to the selected companies, Goldman Sachs calculated:

enterprise value, which is the market value of common equity plus the book value of debt less cash, as a multiple of latest 12 months sales;

enterprise value as a multiple of latest 12 months earnings before interest, taxes and depreciation and amortization excluding all extraordinary/non-recurring/onetime items, or EBITDA; and

enterprise value as a multiple of latest 12 months earnings before interest and taxes excluding all extraordinary/non-recurring/onetime items, or EBIT.

The results of these analyses are summarized as follows:

Enterprise Value as a multiple of:	Selected Companies in the Filtration Industry			
	Range	**Median**	**Ionics**	**Ecolochem Acquisition(a)**
LTM Sales	0.8x-3.4x	1.8x	1.2x	3.1x
LTM EBITDA	6.1x-16.9x	11.2x	23.0x	8.4x
LTM EBIT	12.6x-31.4x	17.5x	NM(b)	12.0x

(a) Based on aggregate transaction value of $337,435,335 (shares of Ionics common stock valued at the 30-day average closing price for the period ending November 14, 2003 of $28.02 per share). Management adjustments to EBITDA and EBIT include $2.3 million for non-recurring legal fees, transaction related expenses, write-offs, selected officers salaries and other non-recurring items and $13.1 million in proceeds from settlements of legal claims.

(b) Not meaningful.

Goldman Sachs also calculated and compared the selected companies estimated calendar years 2003 and 2004 price/earnings ratios with similar metrics for Ionics. The following table presents the results of this analysis:

Price/Earnings Ratio:	**Selected Companies in the Filtration Industry**		
	Range	**Median**	**Ionics**
2003	17.8x-42.4x*	22.5x*	741.3x**
2004	15.0x-28.2x*	19.3x*	45.6x**

* Based on IBES median estimates for 2003 and 2004 and their respective closing prices on November 14, 2003.

** Using earnings estimates based on IBES median estimates.

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Goldman Sachs also considered latest 12 months EBITDA and EBIT margins and five-year earnings per share compound annual growth rate provided by IBES median estimates.

The following table presents the results of this analysis:

	Selected Companies in Filtration Industry		
	Range	**Median**	**Ionics**
LTM EBITDA Margin	8.3%-21.8%	14.2%	5.1%
LTM EBIT Margin	2.1%-16.6%	10.4%	(2.1)%
5 Year EPS Compound Annual Growth Rate	5.0%-16.5%	12.0%	12.0%

Goldman Sachs also analyzed the 2004 estimated price/ earnings ratio of Ionics as a multiple of the five-year compound annual growth rate of earnings per share and compared them with the selected companies in the filtration industry using IBES median estimates.

	Selected Companies in Filtration Industry		
	Range	**Median**	**Ionics**
2004 P/E to 5 Year Compound Annual Growth Rate of EPS	1.0x-3.0x	1.8x	3.8x

Discounted Cash Flow Analysis. Goldman Sachs performed a discounted cash flow analysis on the Ecolochem Group using projections prepared by Ionics management that did not include any of the synergies expected to result from the Acquisition. Goldman Sachs calculated illustrative enterprise valuation indications for the Ecolochem Group by calculating implied values of the free cash flows and by using implied terminal value indications in the year 2010 based upon multiples ranging from 6.4x to 10.4x estimated EBITDA for 2010. The implied value of the free cash flows and the implied terminal value indications were then discounted to an implied present value using discount rates ranging from 8% to 12%. This analysis, which did not reflect synergies, indicated a range of illustrative enterprise value indications of $257 million to $437 million. Goldman Sachs also used an alternative case generated by the management of Ionics, which also did not reflect any synergies, resulting in a range of illustrative enterprise value indications of $288 million to $509 million.

Selected Transactions Analysis. Goldman Sachs analyzed certain information relating to the following selected transactions in the filtration industry since May 1996:

Osmonics/ General Electric;

USFilter Filtration & Separation Group (Vivendi Environment)/ Pall;

Water & Power Technologies (Privately Owned)/ Earth Tech;

Johnson Screens (Vivendi Environment)/ Weatherford International;

Industrial Filtration & Gas Generation Businesses (Whatman)/ Parker Hannifin;

Recovery Engineering/ Proctor & Gamble;

Essef/ Pentair;

Hach/ Danaher;

United States Filter/ Vivendi;

Culligan Water Technologies/ USFilter;

Protean/ Culligan Water Technologies;

Memtec/ USFilter;

Water Filtration Business (Ametek)/ Culligan Water Technologies;

Filtertek (Schawk)/ Esco Technologies;

Gelman Sciences/ Pall;

Process Equipment Division (United Utilities)/ USFilter;

Water Systems and Manufacturing Group (Wheelabrator Tech.)/ USFilter; and

David Water and Waste Industries/ USFilter.

For each of the selected transactions, Goldman Sachs calculated the enterprise value of the selected transactions in the filtration industry as a multiple of latest 12 months sales, latest 12 months EBITDA and latest 12 months EBIT.

The following table presents the results of this analysis:

Enterprise Value as a Multiple of:	Selected Transactions in Filtration Industry	
	Range	**Median**
Latest 12 months sales	0.47x-3.38x	1.34x
Latest 12 months EBITDA	7.92x-23.01x	11.12x
Latest 12 months EBIT	9.67x-38.68x	17.90x

Pro Forma Merger Analysis. Goldman Sachs prepared pro forma analyses of the financial impact of the merger using 2004 earnings estimates for Ionics and the Ecolochem Group prepared by Ionics management. In addition, the analyses excluded non-recurring charges associated with restructuring and did not reflect the synergies expected to result from the Acquisition. For 2004, Goldman Sachs compared the earnings per share of Ionics common stock, on a standalone basis, to the earnings per share of the common stock of the combined companies. Based on such analyses, the proposed transaction would be accretive, by 19.9%, to Ionics stockholders on an earnings per share basis under the base case generated by the management of Ionics. The alternative case resulted in accretion of 39.6% to Ionics stockholders on an earnings per share basis.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Ionics or the Ecolochem Group or the contemplated transaction.

Goldman Sachs prepared these analyses for purposes of Goldman Sachs providing its opinion to the Ionics Board of Directors as to the fairness from a financial point of view of the consideration to be paid for all of the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group by Ionics pursuant to the Purchase Agreement. These analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Ionics, the Ecolochem Group, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Goldman Sachs opinion to the Ionics Board of Directors was one of many factors taken into consideration by the Ionics Board of Directors in making its determination to approve the Acquisition. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs in connection with the fairness opinion and is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Annex C.

Goldman Sachs, as part of its investment banking business, is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities and private placements as well as for estate, corporate and other purposes. Goldman Sachs is familiar with Ionics having acted as its financial advisor from time to time, including having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Acquisition.

Goldman Sachs also has provided certain investment banking services to Ionics from time to time and may provide investment banking services to Ionics in the future. In connection with the above-described investment banking services Goldman Sachs has received, and may receive, compensation. In addition, Goldman Sachs is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, financing and brokerage activities for both companies and individuals. In the ordinary course of its trading, investment management, financing and brokerage activities, Goldman Sachs and its affiliates may actively trade the debt and equity securities (or related derivative securities) of Ionics for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

The Ionics Board of Directors selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the Acquisition. Pursuant to terms of the engagement, Ionics engaged Goldman Sachs to act as its financial advisor in connection with the Acquisition and agreed to pay Goldman Sachs a transaction fee of $3.5 million, $3.25 million of which is payable upon consummation of the Acquisition. In addition, Ionics has agreed to reimburse Goldman Sachs for its reasonable expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Financing of the Acquisition

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 led by UBS Securities LLC. The new credit facilities are expected to include a $175 million senior secured term loan facility and a $75 million senior secured revolving credit facility. Ionics has applied for credit rating for these proposed credit facilities. The commitment of UBS Securities LLC and the other institutions providing these new credit facilities is subject to customary conditions, including the absence of any material pending or threatened litigation or other proceedings, any material adverse change in or material worsening of the business, results of operations, condition or prospects of Ionics or the Ecolochem Group, or any material adverse change or disruption to the financial, banking or capital markets that could reasonably be expected to have a material adverse effect on the syndication of any portion of the new credit facilities.

If Ionics is unable to obtain financing as contemplated by this commitment, Ionics intends to pursue alternative financing for the cash needed to consummate the Acquisition. If Ionics fails to obtain financing, either as contemplated by the commitment letter or otherwise on terms acceptable to Ionics Board of Directors, Ionics may terminate the Purchase Agreement and abandon the Acquisition. In addition, if the financing includes the issuance, sale or delivery of equity-related securities (including debt securities convertible into, or exercisable or exchangeable for, shares of Ionics common stock), 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 expenses. See the sections entitled Purchase Agreement and Other Related Agreements Termination and Fees each beginning on page 51.

Accounting Treatment

Ionics intends to account for the Acquisition using the purchase method of accounting in accordance with generally accepted accounting principles. Under the purchase method of accounting, the recorded assets and liabilities of the Ecolochem Group will be valued at fair value and added to those of Ionics. Reported financial condition and results of operations of Ionics after the completion of the Acquisition will reflect the Ecolochem Group s balances and results of operations after completion of the Acquisition, but will not be restated retroactively to reflect the historical financial position or results of operations of the Ecolochem Group.

Interests of Certain Persons in the Acquisition

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 Sellers in connection with the Acquisition. In addition, upon the Closing, 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.

U.S. Federal Income Tax Treatment

The following is a summary of certain United States federal income tax consequences or potential consequences relating to the Acquisition to Ionics, its subsidiaries and certain of its stockholders. This summary is for general purposes only; it does not address all potential tax considerations, and it does not provide a complete or detailed discussion of the matters that are discussed below. This summary is based upon provisions of the Code, regulations promulgated by the United States Department of the Treasury under the Code and judicial and administrative interpretations of the Code and such regulations, all as in effect as of the date hereof, and all of which are subject to change (possibly on a retroactive basis) or to different interpretation. There can be no assurance that the Internal Revenue Service (the IRS) will not challenge one or more of the tax consequences described herein, and Ionics has not obtained, nor does Ionics intend to obtain, a ruling from the IRS with respect to such consequences.

This discussion does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction, or under United States federal estate or gift tax laws. In addition, this discussion does not address all tax considerations that may be applicable to a stockholder s particular circumstances or to stockholders that may be subject to special tax rules: e.g., any of the Sellers or their affiliates; stockholders subject to the alternative minimum tax; stockholders who acquired their Ionics stock in compensatory transactions; banks, insurance companies, or other financial institutions; foreign persons or entities; tax-exempt organizations; pension funds; Subchapter S corporations; regulated investment companies; brokers or dealers in securities or commodities; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; stockholders whose functional currency is not the United States dollar; stockholders that hold Ionics shares as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction; persons deemed to sell Ionics shares under the constructive sale provisions of the Code; or persons subject to taxation as expatriates of the United States. Furthermore, in general, this discussion does not address the tax consequences applicable to stockholders that are treated as partnerships or other pass-through entities for United States federal income tax purposes, or to persons who hold Ionics shares through a partnership or other passthrough entity.

Ionics Stockholders. No gain or loss should be recognized for United States federal income tax purposes by Ionics stockholders with respect to their shares of Ionics common stock upon the consummation of the Acquisition.

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Ionics. 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 requested by Ionics, Ionics and the shareholders of Ecolochem and Ecolochem International (as applicable) will join in making an election under Section 338(h)(10) of the Code with respect to Ecolochem, Ecolochem International or both. If a valid election is made under Section 338(h)(10) of the Code with respect to either or both of Ecolochem or Ecolochem International, Ionics will generally be able to treat the acquisition of the stock of any company with respect to which such an election is made as if new subsidiaries of Ionics had acquired the assets of such company in a taxable transaction. If Ionics makes a valid election under Section 338(h)(10) of the Code with respect to the acquisition of the stock of either or both of Ecolochem and Ecolochem International, (a) immediately prior to the Acquisition any company with respect to which such an election is made will be treated as if it transferred its assets to a new corporation in exchange for consideration equal to the cash and other property paid by Ionics plus any liabilities assumed in the transaction; (b) any company with respect to which such an election is made generally will recognize gain or loss as a result of this deemed asset sale; (c) under the Subchapter S provisions of the Code, the shareholders of any company with respect to which such an election is made will include in their income the gain or loss recognized by such company; and (d) any company with respect to which such an election is made generally will be treated as distributing the cash and other property deemed received in the Acquisition to its shareholders in complete liquidation of their shares of stock in such company. Following the Acquisition, and assuming that a valid election under Section 338(h)(10) of the Code is made, the assets of any company with respect to which such an election is made will have a United States federal income tax basis generally equal in the aggregate to the cash and other property paid by Ionics for such company plus any liabilities of such company that are assumed in the transaction, and Ionics may be entitled to depreciate or amortize the increased tax basis of the assets that its new subsidiary or subsidiaries, as the case may be, are deemed to acquire over time periods specified in the Code, which for certain intangible assets is 15 years. Because of certain limitations in the Code, however, Ionics may not be able to depreciate or amortize some or all of the assets that its subsidiary or subsidiaries, as the case may be, are deemed to acquire. As a result, your decision whether to approve the Acquisition Issuance Proposal should not be based on any potential tax benefits associated with an election under Section 338(h)(10) of the Code or on any other tax benefits associated with the Acquisition.

Under the Code, a corporation generally may carry forward net operating losses to offset future taxable income for a period of 20 years. If a corporation undergoes an ownership change, as defined in Section 382 of the Code, however, the amount of net operating losses that a corporation may carry forward may be limited. In general, an ownership change occurs if the percentage of the corporation s stock owned by certain persons increases by more than 50 percentage points over a testing period. In general, the amount of the limitation for any taxable year ending after an ownership change is equal to the value of the stock of such corporation immediately before the ownership change multiplied by the highest of the adjusted Federal long-term rates, as defined in Section 382 of the Code, in effect for any month during the three calendar months ending with the calendar month in which the ownership change occurs. Ionics may have undergone one or more ownership changes in the past that may limit the amount of net operating losses that Ionics may utilize to offset future taxable income. Any additional ownership change, as a result of the Acquisition or otherwise, could further limit the amount of net operating losses that Ionics may utilize to offset future taxable income.

The terms of the credit facilities that Ionics intends to obtain to finance the cash portion of the purchase price will provide for the payment of interest to the lenders. Under the Code and under state, local and foreign tax laws, certain tax benefits attributable to some or all of the interest paid or deemed paid with respect to the credit facilities may be limited.

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Federal or State Regulatory Filings Required in Connection with the Acquisition

United States Antitrust. Under 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.

Other Jurisdictions. Ionics and the Ecolochem Group each conducts operations in a number of foreign countries or jurisdictions where other regulatory approvals may be required or advisable in connection with the consummation of the Acquisition. Ionics believes Brazil to be the only such other jurisdiction, and filed the required notification and report forms by December 9, 2003. Ionics recognizes that any such foreign regulatory approvals may not be obtained prior to the completion of the Acquisition and this may impact Ionics ability to conduct business in those jurisdictions.

Resale Registration. 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, and to continue to be effective as of, the Closing.

Other. Other than those described above and (a) the requirement that Ionics file this Proxy Statement with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, and the rules promulgated thereunder (the Exchange Act), (b) certain other filings required to be made under the Exchange Act and (c) certain securities law or blue sky filings Ionics must make with certain states, Ionics is not aware of any federal or state regulatory requirements or approvals that must be complied with or obtained in connection with the Acquisition.

By-Law Amendment

On November 2, 2003, the Ionics Board of Directors approved an amendment to Ionics by-laws which will permit the Sellers to nominate one or more persons to the Ionics Board of Directors pursuant to the terms of the Stockholders Agreement, without complying with the procedures for director nominations otherwise set forth in the by-laws.

No Change to Existing Ionics Common Stock

Shares of Ionics common stock that are currently outstanding will not be converted or exchanged in the Acquisition.

Rights Plan Amendment

In connection with the execution and delivery of the Purchase Agreement, the Ionics Board of Directors approved Amendment No. 1 (the Rights Amendment) to the Renewed Rights Agreement dated as of August 19, 1997 by and between Ionics and EquiServe Trust Company (as successor to BankBoston N.A.), as rights agent (the Renewed Rights Plan). The Rights Amendment amends certain sections and definitions of the Renewed Rights Plan to render the Renewed Rights Plan inapplicable to the acquisition by the Sellers of the shares of Ionics common stock issued to the Sellers in connection with the Acquisition and to certain post-closing transactions effected by the Sellers with respect to such shares. The full text of the Rights Amendment is a attached to the Purchase Agreement as Exhibit G. For a further description of the Renewed Rights Plan, see The Charter Amendment Proposal Renewed Rights Plan beginning on page 70.

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Anti-takeover Considerations

Ionics is subject to the provisions of Chapter 110C of the Massachusetts General Laws, entitled Regulation of Take-Over Bids in the Acquisition of Corporations. Under Chapter 110C, no offeror may make a take-over bid for the stock of a target company without publicly announcing the terms of the bid, filing certain information with the Secretary of State of Massachusetts and the target company and paying a fee to the Secretary of State. The Secretary of State may hold a hearing to determine if adequate disclosure has been made and if the take-over bid is fair. A target company is defined as any Massachusetts corporation, or any corporation with its principal place of business in Massachusetts, whose securities are or are to be the subject of a take-over bid. Ionics qualifies as a target company. A take-over bid is defined as any acquisition or offer to acquire stock of a target company where, after such acquisition, the offeror and its affiliates will be the beneficial owner directly or indirectly of more than 10% of a class of the target company s stock. However, a take-over bid does not include any bid to which the target company s board of directors consents, if the board of directors has recommended the acceptance of the bid and the terms thereof to the stockholders. For purposes of Chapter 110C, the Ionics Board of Directors specifically approved and consented to the Sellers acquisition of the shares to be issued in the Acquisition and recommended the acceptance of the bid and the terms thereof to the stockholders.

Ionics is also subject to the provisions of Chapter 110F of the Massachusetts General Laws, the so-called Business Combination Statute. Under Chapter 110F, a Massachusetts corporation with over 200 stockholders, such as Ionics, may not engage in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless (i) the interested stockholder obtains the approval of the board of directors prior to becoming an interested stockholder, (ii) the interested stockholder acquires 90% of the outstanding voting stock of Ionics (excluding shares held by certain affiliates of Ionics) at the time it becomes an interested stockholder, or (iii) the business combination is approved by both the board of directors and at a meeting of the stockholders by the holders of at least two-thirds of the outstanding voting stock of Ionics (excluding shares held by the interested stockholder). An interested stockholder is a person who, together with affiliates and associates, owns (or at any time within the prior three years did own) 5% or more of the outstanding voting stock of Ionics. A business combination includes a merger, a stock or assets sale, and other transactions resulting in a financial benefit to the stockholder. The Ionics Board of Directors approved the acquisition of the shares to be issued in the Acquisition, exempting such issuance from the provisions of Chapter 110F.

PURCHASE AGREEMENT AND OTHER RELATED AGREEMENTS

This section of the Proxy Statement provides a summary of the Purchase Agreement, which is the definitive agreement governing the Acquisition, the Stockholders Agreement to be entered into at the closing by Ionics and the Sellers (the Stockholders Agreement), and certain other agreements relating to the Acquisition. This summary, however, may not contain all of the information that is important to you. Ionics urges you to carefully read the Purchase Agreement and the Stockholders Agreement, which appear as Annexes A and B, respectively, to this Proxy Statement.

The Acquisition

Ionics has agreed to acquire Ecolochem, Ecolochem International, Moson Holdings and Ecolochem S.A.R.L. (collectively, the Ecolochem Group) through the purchase of all of the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group (the Acquisition). Under certain circumstances, Ionics may acquire the assets of Ecolochem S.A.R.L. instead of its membership interests. Following the closing of the Acquisition, the Ecolochem Group will be directly or indirectly wholly owned by Ionics.

The Closing

Ionics expects to close the Acquisition (the Closing) as soon as practicable following the Special Meeting. The date of the Closing will be referred to herein as the Closing Date.

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Purchase Price and Related Adjustments

Ionics has agreed to purchase all of the outstanding shares of capital stock, equity interests and other membership interests of the Ecolochem Group from the stockholders and members of each entity comprising the Ecolochem Group (the Sellers) for 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:

Under the Purchase Agreement, the Sellers may cause the Ecolochem Group to distribute any positive Excess Cash to them before the closing. The Purchase Agreement defines Excess Cash as an amount equal to (i) the sum of (A) all cash, cash equivalents (including cash represented by undeposited checks) and marketable securities held by the Ecolochem Group as of the close of business on the business day immediately preceding the Closing Date, plus (B) certain cash deposits held by Internal Revenue Service (which were approximately $1.6 million as of November 18, 2003) minus (ii) the sum of (A) all amounts necessary for the Ecolochem Group to satisfy and discharge all indebtedness for money borrowed from parties other than other members of the Ecolochem Group, (B) all amounts which Ecolochem or its subsidiaries are required to contribute through the Closing Date to Process Water Services, Ecolochem s joint venture with the ONDEO Nalco Company, (C) the amount represented by issued, uncollected or unpaid checks of the Ecolochem Group as of the close of business on the business day immediately prior to the Closing Date and (D) $1,000,000 (which represents an agreed upon adjustment relating to certain deferred taxes). At least two business days before the Closing, the representatives of the Sellers are required to estimate in good faith the amount of Excess Cash as of the Closing. The cash portion of the purchase price to be paid at Closing will be adjusted by that estimated amount of Excess Cash. After the Closing, the amount of Excess Cash as of the Closing will be determined and, if the finally determined amount of Excess Cash as of the Closing differs from the estimated amount, the cash portion of the purchase price will be adjusted and appropriate payments made among the parties to reconcile that difference.

The cash portion of the purchase price is also subject to adjustment based on the difference between the Ecolochem Group s combined Working Capital as of the close of business on the business day immediately prior to the Closing Date and $17,000,000 (the Working Capital Adjustment). For these purposes, Working Capital means total combined current assets of the Ecolochem Group less total combined current liabilities of the Ecolochem Group, in each case excluding any items included in the calculation of Excess Cash and as further adjusted as provided in the Purchase Agreement. At least two business days before the Closing, the representatives of Sellers are required to estimate in good faith the amount of the Working Capital Adjustment. The cash portion of the purchase price to be paid at Closing will be adjusted by the estimated amount of the Working Capital Adjustment. After the Closing, the amount of the Working Capital Adjustment as of the Closing will be determined and, if the finally determined amount of the Working Capital Adjustment as of the Closing differs from the estimated amount, the cash portion of the purchase price will be adjusted and appropriate payments made between the parties to reconcile that difference.

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 Code with respect to the acquisition of Ecolochem, Ecolochem International or both. Ionics has agreed that if an election is made under Section 338(h)(10) of the Code with respect to 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 establish 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. The amount of the letter of credit or the cash to be deposited in the escrow account is required to be estimated before Closing based on Ionics allocation of the purchase price and the tax rates applicable to such Sellers. 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 as a result of making such an election. The ultimate amount that Ionics would be required to pay to the Sellers if it elects to make an election under Section 338(h)(10) of the Code, however, will be determined based on the final allocation of the purchase price among the assets of any company with respect to which such election is made and the value of the purchase price as of the Closing.

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 (and applying certain stock ownership attribution rules in the Code), do not own (directly or by such attribution rules) immediately after the Closing in excess of 19.5% of the outstanding shares of Ionics common stock. Each share of 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.

Indemnification

The Sellers will indemnify Ionics for losses arising from breaches of certain representations, warranties, covenants and agreements made under the Purchase Agreement. The indemnification will be subject to certain limits and deductibles. The general limit on the Sellers indemnity is $66,000,000, but the limit for environmental losses is $165,000,000. This indemnity is subject to an aggregate deductible of $3,300,000 and an individual deductible of $50,000 per claim.

The Sellers will also indemnify Ionics for losses related to pre-closing taxes, certain other tax matters and certain issues associated with the Ecolochem, Inc. 401(k) plan, without any limits. If Ionics makes a valid election under Section 338(h)(10) of the Code with respect to either or both of Ecolochem and Ecolochem International, the Sellers generally will not be obligated to indemnify Ionics for any additional tax costs imposed either under United States federal tax laws or any state or local tax laws, on either Ecolochem or Ecolochem International that are attributable to the election.

The Sellers will also indemnify Ionics if certain customers of Ecolochem who have a right to terminate their contracts with Ecolochem as a result of the Acquisition actually terminate those contracts under certain circumstances before the first anniversary of the Closing Date. The limit for this indemnity will equal three times the revenue generated under any such contract during the period commencing on the date one year before the date upon which such contract is terminated and ending on the Closing Date.

The Sellers will also indemnify Ionics for certain breaches of representations regarding their ability to complete the Acquisition and the ownership of their shares, equity interests and membership interests.

Any trust beneficiaries who are to receive a distribution of proceeds from the Acquisition from any Seller that is a trust must, as a condition precedent to the receipt of any such distribution, execute an agreement whereby each such beneficiary agrees to return to the Seller trust the entire amount of all such distributions received, as necessary, in order to satisfy the indemnification obligations of the Sellers.

Ionics will indemnify the Sellers for breaches of its representations, warranties and covenants. The general limit on Ionics indemnity is $66,000,000, but the limit for environmental losses is $165,000,000. This indemnity is subject to an aggregate deductible of $3,300,000 and an individual deductible of $50,000 per claim.

Escrow

To secure a portion of the Sellers indemnification obligations under the Purchase Agreement, Ionics will deposit 10% of the aggregate consideration to be paid to the Sellers in the Acquisition, or $20,000,000 in cash and 490,566 shares of Ionics common stock, with an escrow agent to be held in escrow pursuant to the terms of an escrow agreement that Ionics will enter into with the Sellers and the escrow agent on the Closing Date. The Sellers may elect at least two business days before the Closing Date to replace some or all of the escrowed shares of common stock with an amount of cash equal to the value of escrowed shares to be replaced. For this purpose, any escrowed shares to be replaced will be valued at $26.50 per share. Subject to certain limitations, on the first anniversary of the Closing Date, the escrow agent will distribute any amounts held in escrow in excess of 50% of the cash and shares of Ionics common stock placed into escrow at the Closing (together with any interest accrued thereon) to the Sellers, less the amount of any pending claims for indemnification. Subject to certain limitations, on the second anniversary of the Closing Date, the escrow agent will distribute any remaining amounts held in escrow to the Sellers, less the amount of any pending claims for indemnification.

Escrow and/or Letter of Credit for Election under Section 338(h)(10) of the Code

If Ionics elects to make an election under Section 338(h)(10) of the Code with respect to either or both of Ecolochem and Ecolochem International, Ionics must pay an additional amount (see the section entitled Purchase Agreement and Other Related Agreements Purchase Price and Related Adjustments beginning on page 42) to certain of the Sellers to ensure that those Sellers receive, on an after-tax basis, the same amount that they would have received had such elections not been made. Ionics is obligated to pay this amount to the Sellers prior to any date upon which the Sellers are obligated to pay taxes relating to such elections. To secure Ionics obligation to make these payments, Ionics agreed to provide either a letter of credit or a separate escrow account, in each case for the benefit of those Sellers. The amount of the letter of credit or the cash to be deposited in the escrow account is required to be estimated before Closing based on Ionics allocation of the purchase price and the tax rates applicable to the Sellers. 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 as a result of making such an election. The ultimate amount that Ionics would be required to pay to the Sellers if it elects to make an election under Section 338(h)(10) of the Code, however, will be determined based on the final allocation of the purchase price among the assets of any company with respect to which such election is made and the value of the purchase price as of the Closing.

Representations and Warranties

The Purchase Agreement contains various representations and warranties made by the Sellers in their individual capacities relating to, among other things:

- The Sellers authority and capacity to execute, deliver and perform the Purchase Agreement and its related documents and the binding nature of the Purchase Agreement and its related documents;
- The Sellers good and valid title to the stock and other equity interests in the Ecolochem Group;
- The absence of any other commitments by Sellers to sell or purchase equity interests in the entities comprising the Ecolochem Group;

That the Sellers purchase of Ionics common stock is for investment only, without any view toward public distribution in violation of the registration requirements of the Securities Act of 1933;

The absence of conflicts with certain agreements and laws;

The absence or existence of pending or threatened litigation against the Sellers;

The Sellers pre-Closing percentage stock ownership in Ionics;

The Purchase Agreement contains various representations and warranties made by the Sellers regarding the Ecolochem Group relating to, among other things:

The existence and good standing, corporate power and authority to conduct business and qualification to conduct business in certain foreign jurisdictions of each entity in the Ecolochem Group;

The capital stock and the existence or absence of certain commitments regarding the securities, membership interests and interests in joint ventures of the Ecolochem Group;

The absence of conflicts with certain laws, agreements and corporate organizational documents (or other comparable organizational documents) and whether certain consents are required to consummate the Acquisition;

The accuracy of financial statements;

The good and valid title to all material assets;

The good title to, and actual possession of, owned real property and valid leaseholds in leased real property;

The existence and validity of certain intellectual property rights;

The absence of certain types of contracts and the existence, validity and binding nature of certain contracts;

The absence or existence of pending or threatened litigation against the Ecolochem Group;

The timely and accurate filing of material tax returns, payment of material taxes and certain other tax matters;

The status of Ecolochem and Ecolochem International as S Corporations within the meaning of the Code;

The treatment of Moson Holdings, and Ecolochem S.A.R.L. as partnerships for United States federal income tax purposes;

The absence or existence of certain material changes or events since September 30, 2003;

Compliance with applicable laws;

The absence of labor disputes, compliance with labor laws and other matters concerning employees;

The status of certain employee benefit plan matters;

Compliance with environmental laws and certain other environmental matters;

The status and validity of certain insurance policies;

The existence or non-existence of certain transactions with affiliates;

Possession and compliance with all licenses, franchises, permits, approvals and other governmental permits necessary to carry on business;

The validity of accounts receivable;

The quality and sufficiency of inventories;

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The absence of threatened termination of business relationships by certain suppliers and customers;

Payment of fees to their financial advisors; and

Remaining capital commitments to a joint venture.

The Purchase Agreement contains various representations and warranties made by Ionics relating to, among other things:

The corporate existence, qualification to conduct business and corporate standing and power of Ionics;

Corporate authority and power to execute, deliver and perform the Purchase Agreement and its related documents and the binding nature of the Purchase Agreement and its related documents;

The capital structure of Ionics, the existence or absence of certain commitments regarding the securities of Ionics or its subsidiaries, the existence or absence of obligations to make capital commitments in other entities and Ionics interests in joint ventures;

The absence of conflicts with certain laws, agreements and corporate organizational documents and whether certain consents are required to consummate the Acquisition;

The timely filing of reports with the SEC and compliance with NYSE listing requirements;

The accuracy of financial statements;

The good and valid title to all material assets;

The absence or existence of pending or threatened litigation;

The absence or existence of certain material changes or events since December 31, 2002;

That the purchase of the equity interests of the Ecolochem Group is for investment only, without any view toward public distribution;

That the Ionics common stock to be issued to the Sellers has been reserved for issuance and duly authorized, and will be validly issued, fully paid, and nonassessable;

Payment of fees to Ionics financial advisors;

Stockholder approvals in connection with the Acquisition;

The opinion of Ionics financial advisor;

That Ionics has taken the necessary action to amend Ionics Renewed Rights Agreement;

Compliance with applicable laws;

The absence of labor disputes;

The absence or existence of certain types of contracts and the existence, validity and binding nature of certain material contracts;

The timely and accurate filing of material tax returns, payment of material taxes and certain other tax matters;

Compliance with environmental laws and certain other environmental matters;

Possession of certain governmental permits;

The effect of the Acquisition on Ionics benefit plans;

The existence and validity of certain intellectual property rights; and

The delivery of the financing commitment letter to the Sellers.

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Covenants of the Parties

Ionics and the Sellers have made certain covenants relating to the Acquisition, including:

From November 18, 2003 until the Closing (or, if earlier, until termination of the Purchase Agreement) the Ionics Board of Directors (a) will recommend that the stockholders of Ionics approve the Acquisition Issuance Proposal and will not change or withdraw its recommendation and (b) will not approve or recommend or propose publicly to approve or recommend (i) any offer or proposal for a merger or consolidation involving Ionics or (ii) the acquisition by any person of in excess of 25% of Ionics voting stock or any assets of Ionics or its subsidiaries having a value in excess of 25% of the book value of the total assets of Ionics and its subsidiaries taken as a whole other than the Acquisition (both (i) and (ii) an Ionics Acquisition Transaction). Notwithstanding the foregoing, from November 18, 2003 until the date the stockholders approve the Acquisition Issuance Proposal, the Ionics Board of Directors may withdraw or modify its recommendation to its stockholders that they approve the Acquisition Issuance Proposal if it receives a proposal for an Ionics Acquisition Transaction that the Ionics Board of Directors determines, in good faith after consultation with counsel and its financial advisers, could result in an Ionics Acquisition Transaction that would be more favorable to Ionics stockholders than the Acquisition and is reasonably capable of being consummated (subject to certain exceptions) (a Purchaser Superior Proposal);

Neither Ionics nor the Sellers (including the Ecolochem Group and its subsidiaries) will issue a public release or announcement concerning the Purchase Agreement or the Acquisition without the consent of the other party;

Ionics, with the Sellers assistance, will prepare and file this Proxy Statement and certain other filings with the SEC and the NYSE;

Ionics will hold the Special Meeting of Stockholders within 120 days of the signing of the Purchase Agreement to approve the actions necessary to consummate the Acquisition; and

The Sellers have agreed to prepare and file, or cause to be prepared and filed, on a timely basis, all United States federal, state and local, and foreign tax returns of the Ecolochem Group with respect to taxable periods ending on or before the date of the Acquisition, and Ionics has agreed to prepare and file, or cause to be prepared and filed, on a timely basis, such returns with respect to taxable periods that include, but do not end on, the date of the Acquisition. In general, the Sellers and Ionics have the right to review and comment on the returns before they are filed by the other party, and a procedure to resolve disputes with respect to the returns has been established.

Non-Competition and Non-Solicitation Provisions

Subject to certain exceptions, for a period of five years from the Closing Date or if later, five years from the date he is no longer employed by Ionics or its subsidiaries (but in no event later than December 31, 2010, unless provided for in a new agreement), Messrs. Lyman Dickerson and Douglas Dickerson and the Sellers will not engage in any business competitive with any water-related business conducted by Ionics or its subsidiaries throughout the world.

Subject to certain exceptions, for a period of two years from the Closing Date or if later, two years from the date he is no longer employed by Ionics or its subsidiaries (but in no event later than four years from the Closing Date, unless provided for in a new agreement), Messrs. Lyman Dickerson, and Douglas Dickerson and the Sellers will not engage in any business competitive with any non-water-related business conducted by Ionics or its subsidiaries throughout the world.

For a period of five years from the Closing Date or if later, five years from the date he is no longer employed by Ionics or its subsidiaries (but in no event later than December 31, 2010, unless provided for in a new agreement), Messrs. Lyman Dickerson and Douglas Dickerson and the Sellers will not (a) recruit or solicit for hire or hire or otherwise engage any employees of Ionics, the Ecolochem Group or their respective subsidiaries or any such person who has terminated his or her relationship with Ionics, the Ecolochem Group or their respective subsidiaries within six months prior to such solicitation or (b) directly or indirectly, solicit or do business in any capacity that constitutes water-related business activities with any customer of Ionics, the Ecolochem Group or their respective subsidiaries.

No-Shop Provisions

The Ecolochem Group. The Sellers have agreed to no-shop provisions prohibiting (a) the Sellers, (b) the Ecolochem Group or its subsidiaries or (c) any officers, directors, employees, agents, investment bankers and attorneys or other representatives of the Sellers or the Ecolochem Group or its subsidiaries from:

Soliciting, initiating or encouraging the submission of any offer or proposal for a stock purchase, merger, consolidation or other business combination involving the Ecolochem Group or its subsidiaries or the sale of all or any significant portion of the assets, capital stock or equity interests in the Ecolochem Group or its subsidiaries;

Entering into an agreement with respect to the foregoing; or

Providing non-public information regarding the Ecolochem Group or its subsidiaries to any third party or engaging in negotiations or discussions in connection with the foregoing.

The Sellers have also agreed (a) to terminate or to cause to be terminated any existing activities with respect to the foregoing and (b) to notify Ionics of the identity of a potential acquirer and the terms of such acquirer s proposal to the extent received by the Sellers.

Ionics. From November 18, 2003 until the Closing (or, if earlier, until termination of the Purchase Agreement) Ionics has agreed to no-shop provisions prohibiting (a) Ionics or its subsidiaries or (b) any officers, directors, employees, agents, investment bankers and attorneys or any other representatives of Ionics or its subsidiaries from:

Soliciting, initiating or encouraging the submission of any Ionics Acquisition Transaction;

Entering into any agreement with respect to any Ionics Acquisition Transaction; or

Providing any non-public information regarding Ionics or its subsidiaries to any third party or engaging in negotiations or discussions in connection with an Ionics Acquisition Transaction (or an offer or proposal therefor).

Notwithstanding the foregoing, Ionics may, after receiving an unsolicited offer or proposal with respect to an Ionics Acquisition Transaction, solicit, initiate or encourage the submission of any Ionics Acquisition Transaction from any third party, provide any non-public information regarding itself to any third party, engage in any negotiations or discussions with any third party or enter into an agreement with any third party with respect to any Ionics Acquisition Transaction if the Ionics Board of Directors determines, in good faith after consultation with counsel and its financial advisers, that the failure to take such action could result in a breach of its fiduciary duties under applicable law; provided, however, that (a) Ionics may not take any such actions with respect to an Ionics Acquisition Transaction that is conditioned on the Acquisition not being consummated unless the Ionics Board of Directors determines, in good faith after consultation with counsel and its financial advisers, that such Ionics Acquisition Transaction could result in a Purchaser Superior Proposal, (b) Ionics may not request or require that any offer or proposal for an Ionics Acquisition Transaction solicited or initiated by Ionics be conditioned upon the Acquisition not being consummated and (c) Ionics and its subsidiaries may not enter into a definitive agreement for the implementation of an Ionics Acquisition Transaction that is conditioned upon the Acquisition not being consummated unless Ionics provides notice to Sellers and terminates the Purchase Agreement.

Ionics has also agreed (a) to terminate or to cause to be terminated any existing activities with respect to the foregoing and (b) to notify the Sellers of the identity of a potential acquirer and the terms of such acquirer s proposal to the extent received by Ionics.

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Conduct of the Parties Pending the Closing

The Ecolochem Group. The Purchase Agreement contains various covenants of the Sellers regarding the manner in which they will operate the Ecolochem Group pending the completion of the Acquisition. In general, these covenants are designed to ensure that the Ecolochem Group continues to conduct its business only in the ordinary course prior to the Closing Date and to impose certain limitations on its operations during such period. For example, without the written consent of Ionics, the Sellers will cause the Ecolochem Group and its subsidiaries to not take certain actions, including:

- Amending any of the organizational or governing documents of the Ecolochem Group or its subsidiaries;
- Declaring, setting aside or paying any non-cash dividend or making any other non-cash distribution with respect to their shares of capital stock, equity interests or membership interests, except for certain inter-company transfers;
- Redeeming or acquiring any shares of the capital stock, equity interests or membership interests of the Ecolochem Group;
- Issuing, delivering, selling, pledging or otherwise encumbering any shares of capital stock, equity interests or membership interests, derivative securities or other similar ownership interests of the Ecolochem Group or make any announcement to do any of the foregoing;
- Recapitalizing or reorganizing the capital stock, equity interests or membership interests of the Ecolochem Group;
- Changing compensation or benefits of officers, directors and employees;
- Incurring any indebtedness or granting any guarantee for borrowed money that will not be repaid at or before the Closing, or permitting assets to become subject to liens;
- Acquire by merging with or purchasing a substantial portion of the assets of any other business organization in excess of $100,000 in the aggregate;
- Acquiring, selling or otherwise disposing of any assets in excess of $100,000 in the aggregate (subject to certain exceptions);
- Canceling any material indebtedness;
- Incurring obligations for certain capital expenditures in excess of $1,000,000, except in accordance with agreed upon capital expenditure budgets of the Ecolochem Group and its subsidiaries and certain other exceptions;
- Making any payments, loans or advances or selling or transferring assets to any Seller, other than the payments of permitted distributions or dividends and salary and benefits;
- Making any change in accounting methods, principles or practices except as required by GAAP or applicable law;
- Taking any actions that would cause Ecolochem or Ecolochem International to fail to be treated as S corporations for tax purposes;
- Changing or modifying any method of reporting income, deductions or other items for tax purposes or amending any tax return that would have any impact on Ionics tax liability, tax attributes or its potential election under Section 338(h)(10) of the Code;
- Entering into any foreign currency or interest rate swap agreements or similar derivative contracts; and
- Declaring any dividends or making any other distribution if doing so would cause the cash balance of the Ecolochem Group and its subsidiaries to fall below the amount required to repay in full outstanding indebtedness for borrowed funds.

In addition, the Sellers have agreed to cause all of the companies in the Ecolochem Group to (a) repay all outstanding indebtedness for borrowed funds of the Ecolochem Group owed to financial institutions and any other persons (other than companies of the Ecolochem Group and their subsidiaries) or evidenced by a promissory note, letter of credit, credit facility, bond or similar security and discharge all liens related thereto, (b) terminate any agreements relating to foreign currency swaps, interest rate swaps or other similar agreements and (c) obtain or restore certain required foreign qualifications, in each such case prior to the Closing Date.

Ionics. The Purchase Agreement contains various covenants of Ionics including the requirement that without the written consent of the Sellers, Ionics will not take certain actions, including:

Amending the organizational or governing documents of Ionics or its subsidiaries in a manner that adversely affects the Sellers or the consummation of the Acquisition, other than to increase the number of shares of authorized common stock;

Declaring, setting aside, or paying any dividend or making any other distribution with respect to its capital stock, except for certain inter-company transfers;

Redeeming or acquiring any shares of its capital stock;

Issuing, delivering, selling, pledging or otherwise encumbering any shares of capital stock, derivative securities or other similar ownership interests other than (a) under existing agreements with current or former employees or directors or Ionics stock option and benefit plans, (b) issuances pursuant to existing stock options, (c) issuances of shareholder rights under Ionics rights plan and (d) other issuances not to exceed 1,750,000 shares of common stock in the aggregate;

Recapitalizing or reorganizing its capital stock;

Incurring indebtedness or granting any guarantee (other than debt incurred in connection with the financing of the Acquisition) outside of the ordinary course of business;

Acquiring by merging with or acquiring a substantial portion of the assets of any other business organization in excess of $10,000,000 in the aggregate;

Selling or otherwise disposing of more than 10% of the assets of Ionics ultrapure water group or any other assets material to Ionics and its subsidiaries taken as a whole, subject to certain exceptions;

Making any change in accounting methods, principles or practices except as required by GAAP or applicable law;

Except in connection with any financing agreements entered into in connection with the consummation of the Acquisition, entering into any foreign currency or interest rate swap agreements or similar derivative contracts other than in the ordinary course of business and consistent with past practice;

Entering into any commitment to make any advance, loan, extension of credit, capital contribution or other investment in any person if any such commitment would require Ionics to expend, individually or in the aggregate, more than $10,000,000; and

Entering into a joint venture or similar business relationship if such relationship would either individually or in the aggregate obligate Ionics to expend more than $10,000,000.

In addition, Ionics is obligated to use its reasonable best efforts to consummate the financing necessary to consummate the Acquisition as detailed in the commitment letter received by Ionics and submitted to the Sellers prior to the execution of the Purchase Agreement or, if it is unable to do so, to obtain alternative financing which is approved by the Ionics Board of Directors, provided that Ionics must first pursue alternative financing that does not involve the issuance, sale or delivery of equity or equity-related securities.

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Termination

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 does not occur on or before May 18, 2004, unless the deadline is extended under certain circumstances (the Outside Date), 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 at the Special Meeting of stockholders; or

If Ionics does not obtain financing for the cash consideration to be paid pursuant to the Purchase Agreement on or before the Outside Date;

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

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

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

Ionics has agreed to 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 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 to the Sellers pursuant to the Purchase Agreement on or before the Outside Date other than because of the reasonable

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determination by any party providing such financing that (A) any change or development has occurred since September 30, 2003 with respect to the Ecolochem Group or any additional information is disclosed to or discovered by any party providing such financing that has had or could reasonably be expected to have a material adverse effect on, or indicates a material worsening of, the business, results of operations, condition (financial or otherwise), assets, liabilities or prospects of the Ecolochem Group companies and their subsidiaries, taken as a whole, or (B) a material adverse change or material disruption has occurred in the financial, banking or capital markets generally which has had or could reasonably be expected to have a material adverse effect on the syndication of any portion of the financing to be provided to Ionics to consummate the Acquisition.

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 the stockholders of Ionics approve the Acquisition Issuance Proposal;

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 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 either publicly announced, publicly proposed, publicly commenced or consummated and either (i) the Purchase Agreement is subsequently terminated if the Closing does not occur on or before the Outside Date or (ii) Ionics stockholders do not approve the Acquisition Issuance Proposal at the Special Meeting of the stockholders;

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 must 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 negotiations leading up to and the performance of their obligations under 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 must 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 negotiations leading up to and the performance of their obligations under the Purchase Agreement up to an aggregate of $4,500,000.

Expenses

Ionics and the Sellers will be responsible for their own costs and expenses incurred in connection with the negotiations leading up to and the performance of their respective obligations under the Purchase Agreement, including the fees of attorneys, accountants and other advisors employed or retained by each party, subject to the expense reimbursement obligations of Ionics disclosed under the Fees section above and subject to certain other exceptions. Ionics has agreed to bear 50% of any transfer taxes associated with

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the Acquisition, including any stamp, sales, use, issuance and similar taxes, and the Sellers have agreed to bear 50% of such taxes. The costs and expenses of the Sellers and the Ecolochem Group and its subsidiaries will be paid by the Sellers individually and not by the Ecolochem Group or its subsidiaries. The Sellers have jointly and severally indemnified Ionics against all costs and expenses of the Sellers and the Ecolochem Group and its subsidiaries referred to above that are not paid in full prior to the Closing Date. Ionics has agreed to reimburse the Sellers and the Ecolochem Group and its subsidiaries for all filing fees relating to compliance with the HSR Act and any similar merger, takeover or competitive laws of any foreign government or jurisdiction.

Conditions to Closing

The obligations of Ionics 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 the Sellers in the Purchase Agreement are accurate, subject to materiality qualifications;
- The Sellers shall have complied in all materials respects with all covenants and agreements in the Purchase Agreement required to be complied with at the time of the Closing;
- The absence of any law, order, injunction, decree or other legal restraint or prohibition preventing the consummation of the Acquisition or certain related matters;
- Mr. Lyman Dickerson shall have executed the Employment Agreement;
- The Sellers and the escrow agent shall have executed the Escrow Agreement;
- The Sellers shall have executed the Stockholders Agreement;
- Ionics stockholders shall have approved the Acquisition Issuance Proposal;
- The shares of Ionics common stock to be issued to the Sellers in the Acquisition shall have been approved for listing on the NYSE, subject to official notice of issuance;
- Ionics shall have received an opinion of Williams Mullen and a reliance letter in favor of the lending institutions providing the financing for the Acquisition;
- The Sellers shall have executed a release in favor of Ionics;
- All of the indebtedness for borrowed funds of the Ecolochem Group 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;
- The Sellers, the sellers representatives and the escrow agent shall have executed the Section 338(h)(10) Escrow Agreement, unless Ionics shall have elected to obtain a letter of credit in lieu thereof;
- The Sellers shall have taken all necessary action to consent to the Acquisition, waive any applicable rights of first refusal, terminate any applicable shareholder agreements to which the Sellers are parties, amend provisions of the operating agreement of Moson Holdings relating to any restrictions on transfer of interests in Moson Holdings, and amend the articles of organization of Ecolochem S.A.R.L. to provide that the death of a member will not cause the dissolution of Ecolochem S.A.R.L.; and
- 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 materials respects with all covenants and agreements in the Purchase Agreement required to be complied with at the time of the Closing;

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

Ionics shall have executed the Employment Agreement;

Ionics and the escrow agent shall have executed the Escrow Agreement;

Ionics shall have executed the Stockholders Agreement;

Ionics stockholders shall have approved the Acquisition Issuance Proposal;

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

Sellers shall have received an opinion of Testa, Hurwitz & Thibeault, LLP and a reliance letter in favor of the lending institutions providing the financing for the Acquisition;

Ionics shall have filed a registration statement with the SEC with respect to the resale of Ionics common stock 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;

Ionics and the escrow agent shall have executed the Section 338(h)(10) Escrow Agreement or Ionics shall have obtained a letter of credit in lieu thereof;

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

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

Registration Rights

Pursuant to the terms of the Purchase Agreement and the Stockholders Agreement, 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 under the Purchase Agreement. Ionics also plans to file a listing application with the NYSE for the shares of common stock to be issued to Sellers in the Acquisition. Under certain circumstances, the Sellers will have demand and incidental registration rights, subject to certain limitations. Under certain circumstances, Ionics will be entitled to suspend or delay the effectiveness of any registration period for reasonable periods of time not to exceed 45 consecutive days and in any event, an aggregate of 90 days during any 360-day period.

Board Composition

Pursuant to the terms of the Stockholders Agreement, in connection with the Acquisition, the Ionics Board of Directors plans to expand from nine members to up to 11 members prior to the Closing Date. The Sellers and certain of their permitted transferees (the Investor Group) will be entitled to designate up to two members of the Ionics Board of Directors, one of whom will be Mr. Lyman Dickerson, and the other of whom has not yet been designated. The number of directors entitled to be designated decreases as the Investor Group s ownership of Ionics common stock decreases below certain percentage thresholds. Ionics intends to appoint to the Ionics Board of Directors Mr. Lyman Dickerson and, if properly identified, another designee of the Investor Group simultaneously with the Closing of the Acquisition.

At least one director designated by the Investor Group 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.

Subject to certain limitations, Mr. Lyman Dickerson will have the right to be appointed as Chairman of the Ionics Board of Directors for each of the two years following his resignation as an employee of Ionics if Arthur L. Goldstein no longer serves as Chairman or Mr. Lyman Dickerson s resignation as an employee of Ionics occurs after the second anniversary of the Closing Date.

Standstill

Following the Closing 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 Investor Group), the Investor Group and certain of its affiliates will not take certain actions designed to acquire control of Ionics, other than under certain other limited circumstances.

Certain Restrictions on Voting and Transfers

In connection with the Closing, the Sellers will agree that, until the earlier of the first anniversary of the Closing Date and certain other events, the Investor Group will vote or will grant Ionics a proxy to vote its 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 the Investor Group may vote in any manner it chooses in the election of a director designated by the Investor Group.

The Stockholders Agreement provides that, during the six months following the Closing Date, the Sellers and certain of their permitted transferees will not transfer more than 10% of the shares of Ionics common stock issued to them in the Acquisition other than to a related person. The Stockholders Agreement also restricts the Sellers and certain other related parties, for so long as they hold at least 15% of the outstanding shares of Ionics common stock, from selling or otherwise transferring their shares of Ionics common stock to third parties identified by the Ionics Board of Directors as competitors of Ionics.

Ancillary Agreements

Pursuant to the terms of the Purchase Agreement, and as conditions precedent to the Closing, the parties specified below will enter into the respective ancillary agreements summarized below.

Stockholders Agreement. At the Closing, Ionics and the Sellers will enter into the Stockholders Agreement. The Stockholders Agreement provides for the registration rights, board composition, chairmanship rights, standstill obligations, voting restrictions and restrictions on transfer described above. The Stockholders Agreement also contains certain provisions to protect the rights of the Investor Group by prohibiting Ionics from taking certain actions. A copy of the Stockholders Agreement is attached as Annex B to this Proxy Statement. Ionics encourages you to read the Stockholders Agreement carefully and fully as it is an important agreement to the Acquisition.

Employment Agreement with Mr. Lyman Dickerson. At the Closing, Ionics will enter into an Employment Agreement with Mr. Lyman Dickerson. The terms of this agreement provide that Mr. Lyman Dickerson will be employed as the Vice President of Ionics Water Systems Division (which includes, among other operations, the Ecolochem Group and its respective subsidiaries and Ionics Ultrapure Water and Industrial Water operations). In this position, Mr. Lyman Dickerson will be the senior executive officer for the Division and will be responsible for managing the integration of the Ecolochem Group with Ionics existing operations. The term of this agreement is for two years unless sooner terminated for cause (as defined therein) or under certain other circumstances. Under the terms of the Employment Agreement, Mr. Lyman Dickerson will be entitled to, among other things: an initial base annual salary of $250,000; participation in Ionics executive bonus program and stock option plans (as determined by the Ionics Board of Directors); participation in Ionics benefit plans; and a severance benefit should the Employment Agreement be terminated by Ionics prior to the expiration of its term for reasons other than cause . Additionally, this agreement also contains standard provisions protecting Ionics trade secrets and intellectual property including confidentiality and non-competition/non-solicitation clauses.

Escrow Agreement. Ionics, the Sellers and an escrow agent will enter into an Escrow Agreement providing for the deposit into escrow of $20,000,000 and 490,566 shares of Ionics common stock, although the Sellers may substitute cash for the shares of Ionics common stock to be placed into escrow, provided they elect to do so at least two days prior to the Closing. See the section entitled Purchase Agreement and Other Related Agreements Escrow on page 44.

Section 338(h)(10) Escrow Agreement. Unless a letter of credit is obtained as described above, Ionics, the Sellers and an escrow agent will enter into an Escrow Agreement providing for the deposit of certain funds for the reimbursement of any additional taxes owed by the Sellers as a result of Ionics making an election under Section 338(h)(10) of the Code for one or both of Ecolochem or Ecolochem International.

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UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma combined condensed balance sheet as of September 30, 2003 gives pro forma effect to the Acquisition and the consummation of certain currently contemplated financing transactions relating to the Acquisition as if the Acquisition and financing transactions had occurred on September 30, 2003. The Acquisition will be accounted for by the purchase method of accounting pursuant to which the purchase price is allocated among the acquired tangible and intangible assets and assumed liabilities in accordance with estimates of their fair values on the date of acquisition. The unaudited pro forma combined condensed balance sheet as of September 30, 2003 was prepared by combining Ionics historical unaudited consolidated balance sheet as of September 30, 2003 with the Ecolochem Group s historical audited combined balance sheet as of September 30, 2003. The amounts reflected in the unaudited pro forma combined condensed balance sheet as of September 30, 2003 presented below are preliminary and subject to change and, therefore, the final values may differ substantially from these amounts.

The unaudited pro forma combined condensed statements of operations for the nine months ended September 30, 2003 and the fiscal year ended December 31, 2002 give pro forma effect to the Acquisition and the consummation of certain currently contemplated financing transactions relating to the proposed acquisition as if the transactions had occurred on January 1, 2002. The unaudited pro forma combined condensed statement of operations for the nine months ended September 30, 2003 was prepared by combining Ionics historical unaudited statement of operations for the nine months ended September 30, 2003 with the Ecolochem Group s historical unaudited combined statement of operations for the nine months ended June 30, 2003. The unaudited pro forma combined condensed statement of operations for the fiscal year ended December 31, 2002 was prepared by combining Ionics historical statement of operations for the fiscal year ended December 31, 2002 with the Ecolochem Group s historical combined statement of operations for the fiscal year ended September 30, 2002.

The Acquisition and related financing transactions have not been consummated as of the date of this Proxy Statement. The pro forma adjustments represent Ionics preliminary determination of purchase accounting adjustments and are based upon available information and certain assumptions that Ionics believes to be reasonable under the circumstances. The pro forma adjustments and certain assumptions are described in the accompanying notes. The allocation of the purchase price is preliminary and will be revised upon the completion of the fixed asset and intangible asset appraisals, which are in progress. The final allocation of purchase price could differ materially from estimated allocated amounts included in these pro forma financial statements. The unaudited pro forma combined condensed financial information presented below does not purport to be indicative of the financial position or results of operations of Ionics had such transactions actually been completed as of the assumed dates and for the periods presented, or which may be obtained in the future.

The Acquisition, together with certain related expenses, will be funded by Ionics as follows:

Proceeds from seven-year senior secured borrowings	$ 175.0 million
Issuance of 4,905,660 shares of Ionics common stock	$ 147.5 million
Cash paid from existing Ionics funds	$ 53.2 million

The value of the proceeds from the issuance of the shares of Ionics common stock, for purposes of determining the accounting purchase price, was determined based on the five-day average for the two days before, day of, and two days after the announcement by Ionics of its agreement to acquire the Ecolochem Group.

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Unaudited Pro Forma Combined Condensed Balance Sheet

September 30, 2003
Amounts in Thousands

	Historical Ionics	Historical Ecolochem Group	Pro Forma Adjustments for Acquisition	Combined Pro Forma
ASSETS				
Current assets:				
Cash and cash equivalents	$130,208	$ 4,074	$ (53,200)(a)	$ 81,082
Short-term investments	1,055	11,380		12,435
Notes receivable	6,626			6,626
Accounts receivable, net	111,112	23,066		134,178
Inventories	26,144	3,437	344(b)	29,925
Other current assets	23,540	357		23,897
Deferred income taxes	17,820			17,820
Total current assets	316,505	42,314	(52,856)	305,963
Long-term notes receivable	46,121			46,121
Investments in affiliated companies	19,918			19,918
Property, plant and equipment, net	171,678	86,878	14,041(c)	272,597
Identifiable intangibles			73,000(d)	73,000
Goodwill	7,485		183,814(e)	191,299
Other long-term assets	29,677	3,146	2,850(f)	35,673
Total assets	$591,384	$132,338	$220,849	$944,571
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Notes payable	$ 5,677	2,099	$	$ 7,776
Accounts payable	28,141	6,364		34,505
Other current liabilities	83,688	3,644		87,332
Total current liabilities	117,506	12,107		129,613
Long-term debt and notes payable	8,797	13,500	175,000(g)	197,297
Deferred income taxes	32,294	1,438	2,280(h)	36,012
Other long-term liabilities	8,881	1,329		10,210
Stockholders equity	423,906	103,964	43,569(i)	571,439
Total liabilities and stockholders equity	$591,384	$132,338	$220,849	$944,571

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Unaudited Pro Forma Combined Condensed Statement of Operations

For the Nine Months Ended September 30, 2003
Amounts in Thousands, Except Per Share Amounts

	Historical Ionics	Historical Ecolochem Group	Pro Forma Adjustments for Acquisition	Combined Pro Forma
Revenues	$260,381	$80,456	$	$340,837
Cost of sales	195,043	43,700	(700)(j)	238,043
Research and development expenses	5,515			5,515
Selling, general and administrative expenses	69,752	18,827	5,378 (k)	93,957
Restructuring and impairment of long-lived assets	4,997			4,997
Impairments of goodwill	12,731			12,731
Income (loss) from operations	(27,657)	17,929	(4,678)	(14,406)
Interest income	2,221	118	(825)(l)	1,514
Interest expense	(741)	(488)	(7,434)(m)	(8,663)
Equity loss	(2,800)			(2,800)
Other income	457	13,255		13,712
(Loss) income from continuing operations before income taxes and minority interest	(28,520)	30,814	(12,937)	(10,643)
Income tax (benefit) expense	(9,076)	1,436	4,280 (n)	(3,360)
(Loss) income from continuing operations before minority interest	(19,444)	29,378	(17,217)	(7,283)
Minority interest expense	634			634
(Loss) income from continuing operations	$ (20,078)	$29,378	$(17,217)	$ (7,917)
Loss per basic and diluted share from continuing operations	$ (1.14)			$ (0.35)
Shares used in basic and diluted loss per share	17,607		4,906(o)	22,513

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Unaudited Pro Forma Combined Condensed Statement of Operations

For the Fiscal Year Ended December 31, 2002
Amounts in Thousands, Except Per Share Amounts

	Historical Ionics	Historical Ecolochem Group	Pro Forma Adjustments for Acquisition	Combined Pro Forma
Revenues	$320,327	$106,894	$	$427,221
Cost of sales	225,751	55,753	(861)(j)	280,643
Research and development expenses	6,462			6,462
Selling, general and administrative expenses	91,195	25,326	7,357 (k)	123,878
Income (loss) from operations	(3,081)	25,815	(6,496)	16,238
Interest income	3,463	188	(1,100)(l)	2,551
Interest expense	(1,215)	(924)	(10,355)(m)	(12,494)
Equity income	3,443			3,443
Other income	8,160	492		8,652
Income (loss) from continuing operations before income taxes and minority interest	10,770	25,571	(17,951)	18,390
Income tax expense	4,947	1,787	884 (n)	7,618
Income (loss) from continuing operations before minority interest	5,823	23,784	(18,835)	10,772
Minority interest expense	969			969
Income (loss) from continuing operations	$ 4,854	$ 23,784	$(18,835)	$ 9,803
Earnings per basic share from continuing operations	$ 0.28			$ 0.44
Earnings per diluted share from continuing operations	$ 0.27			$ 0.43
Shares used in basic earnings per share	17,541		4,906(o)	22,447
Shares used in diluted earnings per share	17,671		4,906(o)	22,577

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Notes to the Unaudited Pro Forma Consolidated Financial Statements as of September 30, 2003

(a) Reflects the total purchase price, for accounting purposes, of $375.7 million less the proceeds from issuance of senior subordinated debt of $175.0 million, the issuance of 4,905,660 shares of Ionics common stock valued at approximately $147.5 million as of the date of the Purchase Agreement and cash provided by Ionics of $53.2 million.

(b) Reflects the increase in inventory to estimated fair market value.

(c) Reflects the increase in property, plant, and equipment of $14 million to its estimated fair market value, as follows:

Furniture and fixtures	$69.5 million	3-25-year estimated useful life
Buildings	$15.0 million	10-40-year estimated useful life
Construction in process	$12.9 million	
Land	$3.5 million	
	$100.9 million	

(d) Reflects the recognition of the estimated fair value of the following acquired intangible assets:

Contractual relationships	$56.7 million	12-year estimated useful life
Technology and know-how	$11.5 million	10-year estimated useful life
Non-compete agreements	$0.7 million	3-year estimated useful life
Trade names and trademarks	$2.4 million	9-year estimated useful life
Discharge permits	$1.7 million	Indefinite life
	$73.0 million	

(e) Reflects the excess of the purchase price over the fair market value of the acquired tangible and intangible assets and assumed liabilities.

(f) Reflects the increase in deferred financing costs of $4.4 million associated with the issuance of long-term debt to finance a portion of the Acquisition, offset by the decrease in patents and trademarks to its estimated fair market value and reclassification to intangible assets of $1.5 million (see footnote (d)).

(g) Reflects issuance of $175.0 million of seven-year senior debt to finance a portion of the Acquisition.

(h) Reflects the tax effect at Ionics statutory tax rate applied to the difference between the book basis and the tax basis in certain foreign fixed assets of Ecolochem International where Ionics does not intend to make an election under Section 338(h)(10) of the Code. Ionics intends to make an election under Section 338(h)(10) of the Code with respect to Ecolochem.

(i) Reflects the issuance of 4,905,660 shares of Ionics common stock valued at $147.5 million based on the closing price of the common stock for the two days before, the day of and the two days after the announcement by Ionics of its agreement to acquire the Ecolochem Group, offset by the elimination of the Ecolochem Group s stockholders equity.

(j) Reflects incremental cost of sales associated with increased production costs on long-term construction contracts of $0.8 million for 2003 and $1.0 million for 2002 for amending its existing letters of credit relating to the new credit facilities and incremental amortization expense of $0.9 million for 2003 and $1.2 million for 2002 relating to the acquired intangible assets recorded at fair market value, offset by lower depreciation expense of $2.4 million for 2003 and $3.1 million for 2002 reflecting fixed assets recorded at fair market value and estimates of useful lives.

(k) Reflects incremental operating costs associated with administrative fees of $0.1 million for 2003 and 2002 relating to the new credit facilities and incremental amortization expense of $5.5 million for 2003 and $7.5 million for 2002 relating to the acquired intangible assets recorded at fair market value, offset by

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lower depreciation expense of $0.2 million for 2003 and $0.3 million for 2002 reflecting fixed assets at fair market value and estimates of useful lives.

(l) Reflects reduction of interest income associated with Ionics use of $53.2 million of cash to finance a portion of the Acquisition.

(m) Reflects additional interest, borrowing costs and amortization of deferred financing costs associated with the $175 million senior debt obtained to finance a portion of the Acquisition. A one-eighth of a percent change in the variable interest rate will have a $0.1 million effect on annual interest expense.

(n) Reflects tax effects of Ecolochem s pre-tax income and other pro forma adjustments at Ionics statutory tax rate.

(o) Reflects the issuance of 4,905,660 shares of Ionics common stock to the Sellers to finance a portion of the Acquisition.

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INFORMATION CONCERNING THE ECOLOCHEM GROUP

Business

The Ecolochem Group 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. The Ecolochem Group processes approximately one billion gallons of water monthly for numerous Fortune 500 and other customers in more than 30 countries.

Founded in Virginia in 1954, the Ecolochem Group s predecessor originally supplied equipment that softened water for the residential and light industrial markets in southeastern Virginia. In 1970, it began providing water treatment services to the U.S. Navy to supply dockside boiler feed water, addressing this need by developing the first mobile demineralizer. This product marked the beginning of the industrial mobile water treatment industry. The ability of the Ecolochem Group s predecessor to meet the nuclear standards of the U.S. Navy allowed it to expand directly into the nuclear electrical power market. Ecolochem was then incorporated in Virginia in 1973. The Ecolochem Group s principal offices are located at 4545 Patent Road, Norfolk, Virginia 23502.

Industry Background

Many industries require treated water for operating and manufacturing processes. In treating water, various technologies are utilized and combined to meet varying end-user specifications that determine the degree of treatment required and the processes and equipment used. Treated water can be defined as demineralized or ultrapure, based on the level of purity of the output water. Demineralized, or deionized, water has been treated to remove most impurities and unwanted components, using separation processes such as ion-exchange through the use of specialty resins and membranes, such as those used in the reverse osmosis process. Ultrapure water has been further treated to remove substantially all impurities, requiring the use of additional separation processes, such as gas transfer membranes for gas removal and ultra violet light for organics removal. Most industrial processes require only demineralized water. The microelectronics, food and beverage and pharmaceuticals industries, however, often require ultrapure water.

There are two primary drivers of growth in the worldwide water treatment industry. First, industrial processes increasingly need to eliminate impurities and other unwanted components (generally dissolved solids, gases and organic compounds) of untreated raw water and require a consistent supply of treated water to meet operating requirements. Second, improvements in the ability to detect extremely low levels of impurities and unwanted components result in more exacting customer specifications and an increasing demand for higher quality treated water.

Many industries rely heavily on steam in their manufacturing processes. Treated water is a necessary component in the steam generation process. The use of inadequately treated water in generating steam can result in scaling and corrosion that can cause manufacturing inefficiencies as well as substantial equipment degradation and, ultimately, equipment failure, leading to costly maintenance or replacement expenses.

Industrial companies have historically owned and operated their own facilities to meet their treated water requirements. Recently, a trend has developed to outsource production of treated water, providing a potentially lower cost, higher quality alternative to treating water in their own facilities.

Electric Power Generation. Industrial expansion, technological advancements and population growth all contribute to the increased need for electric power. The primary process of most electric power plants that use coal, gas, oil or nuclear fuel is to create steam to drive turbines to produce electricity. The quality of the water used to produce the steam in this process is critical. Impurities in the water can lead to mechanical damage and down time that may contribute to inefficiencies and increase the costs of operations or even cause a plant shutdown.

Relatively new users of demineralized water in the power generation industry are the merchant power and peak power suppliers. These suppliers generally operate their facilities only during peak power consumption periods to capitalize on premium pricing caused by supply and demand imbalances. As a result, they may only operate their facilities a few weeks or months a year. To eliminate capital outlays for water treatment equipment and maintenance, many of these suppliers have no permanent water treatment plant, but instead use only a tank to store demineralized water that is filled on an outsourced basis using mobile units.

Two additional uses for demineralized water include control of nitrogen oxides, required when dual-fuel power stations switch from gas to oil, and fogging, that increases the megawatt production from a gas turbine unit with the help of additional demineralized water.

Refining, Chemical and Petrochemical. Many companies in the refining, chemical and petrochemical industries rely on high-pressure steam in their manufacturing processes and require a continuous supply of demineralized boiler water. In addition, internal power production (including co-generation of electric power and steam to be used internally as well as sold to others) is increasing in these industries, driving the need for greater amounts of demineralized water and, consequently, water treatment services.

Pulp and Paper. The pulp and paper industry utilizes high-pressure steam for its production processes, as well as for co-generating electric power. In addition, pulping operations typically have a boiler recovery system to recycle caustic soda for the wood digesting process. The equipment used in this operation requires demineralized water.

Each of these industries requires a consistent supply of treated water. To operate effectively in these high volume, highly capital intensive industries that rely on continuous production capabilities, access to reliable mobile water treatment services to minimize unplanned downtime is crucial.

Ecolochem Services

The Ecolochem Group offers three broad categories of water treatment services: emergency, supplemental and extended-term outsourcing.

Emergency Services. Mobile emergency water treatment services respond to unplanned requests by customers to fulfill their short-term treated water needs. Periodically, a customer may require a temporary supply of demineralized water as a result of unpredictable events, such as breakdowns at its water treatment facilities, extreme temperature and weather conditions, periods of high production demand or deterioration in the quality of the raw water supply. In those situations, the customer is often faced with the decision whether to shut down its facility, reduce production levels or find an alternative water treatment service. To address these needs, the Ecolochem Group offers mobile emergency water treatment services provided by mobile units or trailers with the equipment needed to produce water treated to the customer s specifications. Once a customer contacts its centralized dispatch center, the Ecolochem Group s standard operating procedure requires the prompt dispatch of a mobile unit to the customer s site. For these services, customers pay fees for the delivery and use of the mobile units.

Supplemental Services. Supplemental services address customers interim, but planned, water treatment needs. Supplemental services are provided, with advance notice, to customers for a variety of reasons, including planned outages (such as scheduled overhauls or inspections) of their own water treatment facilities, start-up procedures for the construction of new plants, temporary production requirements (such as specialty batch processing) and other anticipated increases in demand for treated water. The typical term of a supplemental services contract is less than 12 months. The Ecolochem Group also uses its mobile water treatment fleet to provide these services. For these services, customers pay fees for the transportation and use of the mobile units.

Extended Term Outsourcing Services. Extended term outsourcing services, or customer facility-based services, supply customers with on-site water treatment solutions. The term of a typical extended term contract is five to 10 years, but may range from as short as 12 months to 15 years or more. The Ecolochem Group retains ownership of the equipment and often operates and maintains the system, eliminating these fixed costs for the customer. The technology used in outsourcing is identical to that used in the mobile services and, although installed at the customer s site, the equipment is substantially similar to that used in mobile services. This equipment similarity allows the Ecolochem Group to back-up, with its mobile fleet, any outsourced installation shut down for upgrading or repair or that requires additional capacity. For these services, customers pay both a fixed fee based on the cost of the equipment provided and a variable fee based on the volume of water treated.

Other Services. The Ecolochem Group also resells both ion-exchange resins and reverse osmosis membranes. Often, it will provide temporary mobile services during the replacement and installation of resins or membranes at the customer s plant. The Ecolochem Group also provides off-site ion exchange resin regeneration and reclamation services for customer-owned resins. It also supplies water softening and filtration treatment equipment to residential and light industrial customers in Southeast Virginia.

Competition

In the mobile water treatment industry, the Ecolochem Group competes with a number of large, multinational companies (including US Filter), as well as smaller regional companies.

The outsourced water treatment market is broadly based and global in scope. In this sector, the Ecolochem Group has similar competitors including many capital equipment suppliers that, in response to market demand, are attempting to offer outsourcing in addition to capital equipment sales.

Employees

As of September 30, 2003, the Ecolochem Group had approximately 582 employees assigned to its various worldwide offices and facilities, of which 485 were employed by Ecolochem and 97 were employed by Ecolochem International. None of the employees of the Ecolochem Group is represented by a union.

Facilities

The Ecolochem Group s principal offices are located in Norfolk, Virginia, where it maintains its executive offices and engineering, technical marketing, operations, customer service, logistics, finance and accounting, human resources, research and development and equipment construction departments. Its international operations are headquartered in Peterborough, England, where it has substantially similar facilities.

The Ecolochem Group has six regional service centers in the United States and one in the United Kingdom that have full ion-exchange resin regeneration capability. These facilities are located in Norfolk, Virginia, Fontana, California, East Hartford, Connecticut, Miami, Florida, St. Peters, Missouri, Baytown, Texas and Peterborough, England.

The Ecolochem Group also has additional leased offices or warehouses in Huntsville, Alabama, Liege, Belgium, Cheltenham and East Ivanhoe (Melbourne), Australia, San Bernardo do Campo (Sao Paulo), Brazil, and Manila, Philippines.

Management

Lyman B. Dickerson has served as President and a director of Ecolochem since 1973. He has held similar offices with Ecolochem International since its organization in 1991. He is a principal owner of the Ecolochem Group. Following the Closing of the Acquisition, Mr. Dickerson will serve as Vice President of Ionics Water Systems Division and as a director of Ionics.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the selected historical combined financial data and the audited combined financial statements of the Ecolochem Group included elsewhere in this Proxy Statement.

Results of Operations

Comparison of Fiscal Years Ended September 30, 2003 and September 30, 2002

Revenue. The Ecolochem Group derives its revenues primarily by providing mobile (emergency and supplemental services) and extended term outsourcing water treatment services. Revenue in fiscal year 2003 increased by $2.0 million, or 1.9%, to $108.9 million from $106.9 million in fiscal year 2002. This growth reflected principally an increase in extended term outsourcing water treatment installations of Ecolochem.

Cost of Goods Sold. Cost of goods sold includes the depreciation of the equipment used in the Ecolochem Group s mobile and extended term outsourcing water treatment services. Cost of goods sold in fiscal year 2003 increased by $3.0 million, or 5.4%, to $58.8 million from $55.8 million in fiscal year 2002. This increase included $1.0 million attributable to the revenue increase in fiscal year 2003 and $2.0 million attributable to increased depreciation relating to additional outsourced water treatment installations.

Gross Profit. In fiscal year 2003, gross profit decreased by $1.0 million, or 2.0%, to $50.1 million in fiscal year 2003 from $51.1 million in fiscal year 2002. Gross margin decreased to 46.0% in fiscal year 2003 from 47.8% in fiscal year 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $1.0 million, or 3.9%, to $24.4 million in fiscal year 2003 from $25.4 million in fiscal year 2002. As a percentage of revenue, these expenses decreased to 22.4% in fiscal year 2003 from 23.8% in fiscal year 2002. These decreases resulted primarily from the absence in 2003 of significant legal expenses related to a patent infringement litigation instituted and then, in January 2003, settled favorably by Ecolochem.

Interest Income and Expense. Interest expense decreased by $385,000, or 41.6%, in fiscal year 2003 from fiscal year 2002, primarily as a result of the reduction in the amount of outstanding debt. Interest income remained relatively unchanged at $174,000 for fiscal year 2003 and $188,000 for fiscal year 2002.

Other Income. Other income of $13.2 million in fiscal year 2003 primarily represented proceeds of the settlement of the patent infringement litigation.

Income Taxes. Ecolochem and Ecolochem International are S corporations for federal and certain state income tax purposes. Moson Holdings and Ecolochem S.A.R.L. are treated as partnerships for federal and state income tax purposes. Therefore, their earnings are taxable to the owners of their outstanding stock, membership interests or equity interests, as the case may be, rather than to the companies. Foreign countries and certain states, however, do not recognize S corporation status, and therefore the companies report and pay income taxes to those states and countries in which they conduct business. Thus, income tax expense and the effective tax rate can fluctuate over periods of time as tax laws change in various jurisdictions. Total foreign and state income taxes were $1.8 million in fiscal year 2003 and $1.8 million in fiscal year 2002.

Comparison of Fiscal Years Ended September 30, 2002 and September 30, 2001

Revenue. Revenue in fiscal year 2002 increased by $1.6 million, or 1.5%, to $106.9 million from $105.3 million in 2001. This growth occurred for several reasons. First, Ecolochem continued to benefit from the new regeneration facilities opened in St. Peters, Missouri and Baytown, Texas in 1999 and 2000, respectively. These facilities allowed Ecolochem to expand its services in the midwestern and southwestern regions of the United States and in Mexico. Second, the Ecolochem Group benefited from a worldwide

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increase in new electric power plant construction, which resulted in increased demand for water treatment services.

Cost of Goods Sold. Cost of goods sold decreased by $1.5 million, or 2.6%, to $55.8 million in fiscal year 2002 from $57.3 million in fiscal year 2001. This decrease resulted from decreased purchases of ion-exchange resins, which had been higher in 2001 because of the addition of new mobile water treatment units and upgrades of certain regeneration facilities, as well as lower operating expenses and the implementation of certain cost-cutting programs.

Gross Profit. Gross profit increased by $3.1 million, or 6.5%, to $51.1 million in fiscal year 2002 from $48.0 million in fiscal year 2001. Gross margin increased to 47.8% in fiscal year 2002 from 45.5% in fiscal year 2001. Gross margin benefited from enhanced operational productivity and the implementation of certain cost-cutting programs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $4.3 million, or 20.4%, to $25.4 million in fiscal year 2002 from $21.1 million in fiscal year 2001. As a percentage of revenue, these expenses increased to 23.8% in fiscal year 2002 from 20.0% in fiscal year 2001. The increase was primarily attributable to legal fees associated with the patent infringement litigation. Other contributing factors included a substantial increase in employee benefit costs, as well as an increase in marketing expenditures.

Interest Income and Expense. Interest expense decreased by $563,000, or 37.8%, in fiscal year 2002 from fiscal year 2001, primarily as a result of the reduction in the amount of outstanding debt. Interest income decreased by $38,000, or 16.87%, in fiscal year 2002 from fiscal year 2001, primarily because of lower investment balances.

Other Income. Other income increased by $88,000, or 21.9%, in fiscal year 2002 from fiscal year 2001.

Income Taxes. Total foreign and state income taxes were $1.8 million in fiscal year 2002 and $2.2 million in fiscal year 2001.

Liquidity and Capital Resources

At September 30, 2003, the Ecolochem Group had cash and marketable securities of $15.4 million and working capital of $30.2 million. The Ecolochem Group has financed its operations and capital expenditures primarily with cash generated by operations and, to a lesser extent, with the proceeds from borrowings. Net cash provided by operating activities was $47.6 million, $34.3 million and $27.0 million for the fiscal years ended September 30, 2003, 2002 and 2001, respectively.

Net cash used in investing activities was $22.4 million, $15.2 million and $14.7 million for the fiscal years ended September 30, 2003, 2002 and 2001, respectively. Capital expenditures during the fiscal years ended September 30, 2003, 2002 and 2001 were $15.4 million, $12.8 million and $16.7 million, respectively.

Net cash used in financing activities during the fiscal years ended September 30, 2003, 2002 and 2001 was $27.5 million, $18.2 million and $12.0 million, respectively. These amounts included distributions to stockholders of $22.4 million, $12.9 million and $10.4 million, and net debt repayments of $5.9 million, $5.8 million and $1.6 million, in fiscal years 2003, 2002 and 2001, respectively.

The Ecolochem Group has four credit facilities or lines of credit available with a combined maximum borrowing limit of $31 million. As of September 30, 2003, it had $4.8 million of indebtedness outstanding under these facilities. The facilities consist of a $20 million unsecured revolving credit facility that expires in October 2004, a $3 million unsecured line of credit that expires in March 2004, a $3 million unsecured line of credit that expires in March 2004 and an unsecured term-loan that allows for borrowings up to $4 million. All of these credit facilities carry interest rates based on LIBOR. All are expected to be terminated at the closing of the Acquisition.

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The Ecolochem Group also has a term loan with a balance of $0.3 million as of September 30, 2003. The loan bears interest at a fixed annual rate of 5.75% and is due in monthly installments through December 2003 and is expected to be terminated at the Closing.

Moson Holdings has industrial revenue bonds that mature in October 2012 and are secured by the building and equipment of a regeneration service treatment facility in St. Peters, Missouri. These bonds bear interest at a floating rate. Moson Holdings entered into an interest rate swap agreement to reduce its exposure to interest rate fluctuations. After giving effect to the swap agreement, the bonds bear interest at the effective annual rate of 4.5%. A balance of $3.4 million was outstanding as of September 30, 2003. These bonds are expected to be repaid at or before the Closing of the Acquisition.

Ecolochem has industrial revenue bonds that mature in March 2014 and are secured by the building and equipment of a regeneration facility in Baytown, Texas. These bonds bear a floating interest rate (1.15% annually as of September 30, 2003) and had a balance of $5.3 million as of September 30, 2003. These bonds are expected to be repaid at or before the Closing of the Acquisition.

Ecolochem International has an additional credit facility due in May 2004 with a balance, as of September 30, 2003, of $1.8 million. This facility bears interest at LIBOR plus 1.25%, but has an associated interest rate swap to reduce its interest rate exposure. The effective annual interest rate, after giving effect to the swap agreement, is fixed at 4.6%. This credit facility and swap agreement will be repaid and terminated at or before the Closing of the Acquisition.

The Ecolochem Group s operating cash requirements consist principally of working capital requirements, capital expenditures and scheduled payments on outstanding indebtedness. The Ecolochem Group believes that its cash and marketable securities, cash flow from operating activities and cash from existing lines of credit will be adequate to meet its liquidity requirements in the foreseeable future.

Critical Accounting Policies

Principles of Combination. The combined financial statements of the Ecolochem Group include the accounts of Ecolochem, Ecolochem International, Moson Holdings and Ecolochem S.A.R.L. These entities are under common beneficial ownership and management. Although Ecolochem JV Holdings, Inc., a wholly owned subsidiary of Ecolochem, owns 50% of the partnership, Process Water Services, it is controlled by Ecolochem, and, therefore, is consolidated with Ecolochem. All significant intercompany balances and transactions are eliminated in consolidation and combination.

Revenue recognition. For sales of standard services, the Ecolochem Group follows the guidance provided by SAB 101. The Ecolochem Group does not recognize revenue unless there is persuasive evidence that the services have been rendered, the price for its services is fixed or determinable and collection of the related receivable is reasonably assured. It is the policy of the Ecolochem Group to require an arrangement with its customers, either in the form of a written contract or purchase order, containing all of the terms and conditions governing the arrangement, before the recognition of revenue. At the time of the transaction, the Ecolochem Group assesses whether the price is fixed or determinable and whether collection is reasonably assured. The Ecolochem Group assesses whether the price for its services is fixed or determinable based on the payment terms of the arrangement. If the price of the services is not deemed to be fixed or determinable, revenue is recognized as the amounts become due from the customer. The Ecolochem Group assesses collectibility based on a number of factors, including past transaction and collection history with a customer and the credit-worthiness of the customer. The Ecolochem Group performs ongoing credit evaluations of its customers financial condition but generally does not require collateral from its customers.

The Ecolochem Group provides support services to customers primarily through service contracts and recognizes support service revenues when services are rendered or ratably over the term of the service contract.

Trade Accounts Receivable. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Management determines the allowance for doubtful accounts based on the Ecolochem

Group s historical write-off experience of credit losses in existing accounts receivable, the financial condition of customers, existing economic conditions and the amount and age of past due accounts. The Ecolochem Group reviews its accounts receivable monthly for collectibility. Past due accounts are generally charged off only after all means of collection have been exhausted and the potential for recovery is considered remote. The Ecolochem Group does not have any off-balance-sheet credit exposure related to its customers.

Derivative Instruments and Hedging Activities. In October 2000, the Ecolochem Group adopted SFAS No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities,* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS No. 133*. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values.

On the date the derivative contract is entered into, the Ecolochem Group designates the derivative as a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Ecolochem Group formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet. The Ecolochem Group also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income (loss) until earnings are affected by the variability in cash flows of the designated hedged item.

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THE CHARTER AMENDMENT PROPOSAL

PROPOSAL TO APPROVE THE AMENDMENT TO IONICS ARTICLES OF ORGANIZATION

TO INCREASE THE AUTHORIZED COMMON STOCK
TO 100,000,000 SHARES FROM 55,000,000 SHARES

General

On November 2, 2003, the Ionics Board of Directors voted in favor of adopting, and directed that there be submitted to the stockholders for their approval, an amendment to Ionics articles of organization (the Ionics Charter) to increase the number of authorized shares of common stock, par value $1.00 per share, to 100,000,000 shares from 55,000,000 shares. You are being asked to consider and act upon a proposal to approve this amendment. This proposal requires the affirmative vote of a majority of the outstanding shares of common stock represented at the Special Meeting.

The additional common stock to be authorized by approval of this proposal would have identical rights to the currently outstanding common stock. Shares of Ionics common stock, including the additional shares proposed for authorization, do not have preemptive or similar rights. The authorization of the additional shares of Ionics common stock will generally have no effect upon the rights of existing stockholders, except for effects incidental to increasing the number of shares of common stock outstanding if additional shares are issued.

As of November 30, 2003 there were approximately 17,790,186 shares of Ionics common stock issued and outstanding, approximately 4,794,640 shares reserved for future issuance pursuant to Ionics current option and benefit plans and other outstanding options, and 4,905,660 shares reserved for future issuance in connection with the Acquisition. Under Ionics Renewed Rights Plan (which is discussed in more detail below), common stock purchase rights are distributed at a rate of one such right for each share of Ionics common stock issued and outstanding. These purchase rights, once they become exerciseable in accordance with the Renewed Rights Plan, entitle the holder to buy initially one share of Ionics common stock. If the proposed amendment to the Ionics Charter is approved, after taking into account the number of shares of common stock issuable upon exercise of purchase rights distributed under the Renewed Rights Plan, the Ionics Board of Directors will have the authority to issue approximately 22.5 million additional shares of common stock without further stockholder approval, except as may be required for a particular transaction by applicable law, regulatory agencies, or by the rules of the NYSE or any other exchange on which Ionics securities may then be listed. Without taking into account the number of shares of common stock issuable upon exercise of purchase rights distributed under the Renewed Rights Plan, the Ionics Board of Directors will have the authority to issue approximately 72.5 million additional shares of common stock without further stockholder approval, except as may be required for a particular transaction by applicable law, regulatory agencies, or by the rules of the NYSE or any other exchange on which Ionics securities may then be listed.

The additional shares of authorized common stock may be used for such corporate purposes as may be determined by the Ionics Board of Directors from time to time to be necessary or desirable. These purposes may include, without limitation, raising capital through the sale of common stock; effecting a stock split or issuing a stock dividend; acquiring other businesses in exchange for shares of Ionics common stock; attracting and retaining valuable employees by the issuance of additional securities under Ionics various employee stock plans; and other transactions involving the use of Ionics common stock. Ionics at present has no commitments, agreements or undertakings to issue any such additional shares, except in connection with the Acquisition and existing stock options and equity-based compensation and benefit plans.

Renewed Rights Plan

In December 1987, the Ionics Board of Directors adopted a Stockholder Rights Plan. On August 19, 1997, the Ionics Board of Directors renewed the Stockholder Rights Plan (Renewed Rights Plan). Under the Renewed Rights Plan, common stock Purchase Rights (collectively the Rights and individually a Right) were distributed as a Rights dividend on December 31, 1997 at the rate of one

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Right for each share of Ionics common stock held as of the close of business on that date. Neither the initial adoption of the Stockholder Rights Plan nor its renewal required stockholder approval.

The Renewed Rights Plan is designed to prevent an acquirer from gaining control of Ionics without offering a fair price to all of Ionics stockholders. The Renewed Rights Plan was not adopted by the Ionics Board of Directors in response to any specific offer or threat, but rather is intended to protect the interests of stockholders in the event Ionics is confronted in the future with takeover tactics.

Each Right will entitle holders of Ionics common stock to buy one share of Ionics common stock (or in certain circumstances to receive cash, property or other securities of Ionics) at an exercise price of $175, subject to adjustment. The Rights will be exercisable only after 10 business days following a public announcement that a person or group has acquired more than 15% of the common stock (the Stock Acquisition Date), or 10 business days after such person or group announces a tender or exchange offer which would result in its ownership of 15% or more of the common stock.

If any person or group becomes the beneficial owner of 15% or more of Ionics common stock other than pursuant to a tender or exchange offer for all shares at a price that a majority of the independent directors determines to be fair and otherwise in the best interest of Ionics and its stockholders, then each Right not owned by such person or group will entitle its holder to purchase, at the then current exercise price of the Right, Ionics common stock (or, in certain circumstances as determined by the Ionics Board of Directors, including the failure of the stockholders to increase the authorized common stock as proposed herein, a combination of cash, property, common stock or other securities) having a value of twice the Right s exercise price. In addition, if Ionics is involved in a merger or other business combination with another person in which its common stock is changed or exchanged, or sells or transfers more than 50% of its assets or earning power to another person, each Right that has not previously been exercised will entitle its holder to purchase, at the then current exercise price of the Right, shares of common stock of such other person having a value of twice the Right s exercise price.

In general, Ionics can redeem the Rights at $0.01 per Right at any time prior to ten days following the Stock Acquisition Date. The Rights will expire on August 19, 2007, unless earlier redeemed or exchanged.

On November 17, 2003, following approval of such action by the Ionics Board of Directors on November 2, 2003, the Renewed Rights Plan was amended to render the Renewed Rights Plan inapplicable to the acquisition by the Sellers of the Shares in the Acquisition and to certain post-closing transactions effected by the Sellers with respect to such Shares.

A copy of the Renewed Rights Plan has been filed with the SEC as an exhibit to Ionics Current Report on Form 8-K dated August 27, 1997. A copy of Amendment No. 1 to the Renewed Rights Plan has been filed with the SEC as an exhibit to Ionics Current Report on Form 8-K filed with the SEC on November 26, 2003. A copy of the Renewed Rights Plan and Amendment No. 1 to the Renewed Rights Plan is available free of charge from Ionics.

Reasons for Increase in Authorized Common Stock

Although the consummation of the Acquisition is not contingent upon Ionics stockholders approving the Charter Amendment Proposal, following the issuance of common stock in the Acquisition, Ionics will have only 27.5 million shares of common stock remaining authorized for issuance (without taking into account the number of shares of common stock issuable upon exercise of purchase rights distributed under the Renewed Rights Plan). The Ionics Board of Directors believes that the authorized number of shares of common stock should be increased to provide additional shares to be available for issuance for the potential corporate purposes described above, without having to incur the delay and expense incident to holding a special meeting of stockholders to approve an increase in authorized common stock at such time, and for use in the Renewed Rights Plan, if required. Although there is no specific number of shares designated for use in the Renewed Rights Plan, a larger number of authorized but unissued shares of common stock available for the stockholders to purchase upon exercise of the Rights than is currently

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available increases the Ionics Board of Directors flexibility in administering the Renewed Rights Plan. The Ionics Board of Directors considers the authorization of additional shares of common stock advisable for this reason but more importantly to ensure the prompt availability of sufficient shares for issuance for other corporate purposes should needs or opportunities arise. The Ionics Board of Directors cannot predict the timing, magnitude or purpose of any future issuance of such shares.

Anti-takeover Considerations

If the Charter Amendment Proposal is approved, the Ionics Board of Directors will have the authority to issue approximately 72.5 million additional shares of Ionics common stock (without taking into account the number of shares of common stock issuable upon exercise of purchase rights distributed under the Renewed Rights Plan) without further stockholder approval except as may otherwise be required by law, applicable regulatory agencies or the NYSE or other stock exchanges on which Ionics shares are then listed. Issuance of shares of Ionics common stock could be used to make a change in control of Ionics more difficult or costly by diluting stock ownership of persons seeking to obtain control of Ionics. Ionics is not aware, however, of any pending or threatened efforts to obtain control of Ionics.

In 1990, Massachusetts enacted Chapter 156B §50A of the Massachusetts General Laws which, in general, requires that publicly held Massachusetts companies have a classified board of directors consisting of three classes as nearly equal in size as possible. Once a corporation is subject to the classified board provisions of this statute, directors may be removed by a majority vote of the stockholders only for cause. This statute provides that a corporation may elect to be exempt from the classified board provisions by a vote of its directors. By vote of the Ionics Board of Directors, Ionics did not elect to be exempt from the classified board provisions of this statute.

Certain provisions of Ionics by-laws may also act to delay, defer or prevent changes in control or management of Ionics. Special meetings of the stockholders of Ionics may be called by the President, by a majority of the Ionics Board of Directors or by stockholders; if called by stockholders, the call must be made by holders of 100% in interest of the capital stock entitled to vote at the meeting. In addition, under the by-laws, a stockholder must give Ionics advance notice and certain types of information in order for the stockholder to bring a matter for action at a meeting of stockholders, or to nominate a candidate for director at an annual meeting.

Any and all of Ionics ability to issue a large number of shares of common stock without further stockholder approval, the provisions of the Massachusetts General Laws and the by-laws of Ionics described above, and the Renewed Rights Plan may have the effect of delaying, deferring or preventing changes in control or management of Ionics.

Approval of Charter Amendment Proposal

Approval of the Charter Amendment Proposal requires the affirmative vote of a majority of the issued and outstanding shares of Ionics common stock entitled to vote at the Special Meeting, whether voting in person or by proxy at the Special Meeting of Stockholders. If the stockholders do not approve the Charter Amendment Proposal, the Renewed Rights Plan will remain in full force and effect. If stockholder authorization is granted, Ionics will promptly file articles of amendment to the Charter to effect the increase in authorized shares. Upon such filing, all stockholders of Ionics will be bound by the amendment, whether or not they voted to approve it.

Board of Directors Recommendation

The Ionics Board of Directors unanimously recommends a vote FOR the approval of the Charter Amendment Proposal.

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THE OPTION PLAN INCREASE PROPOSAL

PROPOSAL TO APPROVE THE AMENDMENT TO IONICS 1997 STOCK INCENTIVE PLAN

TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE THEREUNDER BY 1,200,000 SHARES

General

On November 2, 2003, the Ionics Board of Directors amended the 1997 Stock Incentive Plan, as amended to date (the 1997 Plan), subject to the approval of the stockholders of Ionics at the Special Meeting, to increase the number of shares available for issuance upon exercise of options to acquire Ionics common stock (Stock Options), pursuant to long term performance awards (Performance Awards) or, if the Restricted Stock Proposal is approved, awards of shares of Ionics common stock that are subject to contractual vesting and transferability restrictions (Restricted Stock, and together with Stock Options and Performance Awards, Awards) by 1,200,000 shares, representing approximately 6.8% of Ionics outstanding stock on that date. Based solely on the closing price of the common stock as reported on the NYSE on December 15, 2003, 2003 of $31.36 per share, the maximum aggregate market value of the additional 1,200,000 shares of common stock subject to this Proposal would be $37,632,000. You are being asked to consider and act upon a proposal to approve the amendment to Ionics 1997 Stock Incentive Plan to increase the number of shares available for issuance by 1,200,000 shares.

The Ionics Board of Directors has taken such action, subject to stockholder approval, to provide for the availability of additional shares in connection with future grants of Awards, in particular as a result of the increase in Ionics employee base that will occur upon the completion of the Acquisition. The Ionics Board of Directors believes that Awards are desirable and effective employment incentives for the retention of key employees, as well as to attract additional key employees to Ionics, and that Awards will be an important incentive for the retention of key employees of Ecolochem following completion of the Acquisition. Ionics has not yet determined who will receive the shares of common stock underlying Awards that will be authorized for issuance from time to time under the 1997 Plan if the proposed amendment is approved.

The Ionics Board of Directors unanimously recommends that you vote FOR the proposal to approve the amendment to the 1997 Plan to increase by 1,200,000 shares the number of shares of common stock available for issuance thereunder. The approval of the proposed amendment to the 1997 Plan requires the affirmative vote of a majority of shares present in person or represented by proxy at the Special Meeting. Abstentions with respect to the proposal will be considered present at the Special Meeting for purposes of determining whether a quorum exists, but will not be counted as affirmative votes. Abstentions, therefore, will have the practical effect of voting against the proposal because the affirmative vote of a majority of the shares present at the Special Meeting is required to approve the Proposal. Broker non-votes are considered not present at the Special Meeting for the purpose of voting on this proposal and, therefore, will not be voted or have any effect on the proposal.

In evaluating this proposal, stockholders should review the 1997 Plan attached to this Proxy Statement as Annex D. Stockholders should also take into consideration the discussion of the 1997 Plan provided in the discussion of the Restricted Stock Proposal below, as well as matters described in this Proxy Statement under the headings, Equity Compensation Plan Information and Executive Compensation and Other Information.

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THE RESTRICTED STOCK PROPOSAL

PROPOSAL TO APPROVE THE AMENDMENT TO IONICS 1997 STOCK INCENTIVE PLAN

TO AUTHORIZE GRANTS OF RESTRICTED STOCK THEREUNDER

General

On November 21, 2003, the Ionics Board of Directors amended the 1997 Plan, subject to the approval of the stockholders of Ionics at the Special Meeting, to permit the grant thereunder of awards of shares of Ionics common stock that are subject to contractual vesting and transferability restrictions (Restricted Stock) and to make corresponding changes to the 1997 Plan where appropriate. You are being asked to consider and act upon a proposal to approve the amendment to Ionics 1997 Stock Incentive Plan to permit the grant of Restricted Stock thereunder and to make corresponding changes to the 1997 Plan where appropriate. If this amendment is approved, the 1997 Plan will provide for the grant of no more than 1,000,000 shares of Restricted Stock.

The Ionics Board of Directors believes that the ability to grant Restricted Stock, in addition to Stock Options and Long-Term Performance Awards (which are described above and are currently permitted to be granted under the 1997 Plan), is desirable and effective as an employment incentive for the retention of key employees, as well as to attract additional key employees to Ionics. Ionics has not yet determined who will receive the shares of Restricted Stock that will be authorized for issuance from time to time under the 1997 Plan if the proposed amendment is approved.

The Ionics Board of Directors unanimously recommends that you vote FOR the proposal to approve the amendment to the 1997 Plan to authorize grants of restricted stock thereunder and to make corresponding changes to the 1997 Plan where appropriate. The approval of the proposed amendment to the 1997 Plan requires the affirmative vote of a majority of shares present in person or represented by proxy at the Special Meeting. Abstentions with respect to the proposal will be considered present at the Special Meeting for purposes of determining whether a quorum exists, but will not be counted as affirmative votes. Abstentions, therefore, will have the practical effect of voting against the proposal because the affirmative vote of a majority of the shares present at the Special Meeting is required to approve the Proposal. Broker non-votes are considered not present at the Special Meeting for the purpose of voting on this proposal and, therefore, will not be voted or have any effect on the proposal.

Description of 1997 Plan

The 1997 Plan, as amended and restated to increase the number of shares available for issuance under the Plan by 1,200,000 shares, and to authorize grants of restricted stock under the Plan, has been attached to this Proxy Statement as Annex D. Ionics strongly encourages stockholders to carefully review the 1997 Plan.

Under the 1997 Plan, Ionics may grant Stock Options and Performance Awards to officers and other key employees of, and consultants to, Ionics and its subsidiaries. As of November 30, 2003, a total of 817,923 of the 3,146,690 shares previously authorized for issuance under the 1997 Plan remain available for future grants of Stock Options or Performance Awards, and Stock Options covering a total of 2,194,617 shares of Ionics common stock were outstanding. No Performance Awards have been granted under the 1997 Plan. Approximately 350 employees, including officers of Ionics and its subsidiaries, presently participate in the 1997 Plan.

The 1997 Plan was adopted by the Ionics Board of Directors of Ionics on February 19, 1997 and approved by the Stockholders at the 1997 Annual Meeting. The 1997 Plan replaced Ionics 1979 Stock Option Plan as the vehicle for the granting of Stock Options to key employees of Ionics from time to time. The 1979 Plan continues in effect only for the purpose of administering the Stock Options remaining outstanding under the 1979 Plan.

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The following is a summary of the principal features of the 1997 Plan as currently in effect:

Administration. The 1997 Plan is administered by the Compensation Committee of the Ionics Board of Directors (Committee), which currently consists of four non-employee Directors. Subject to its terms, the Committee has full authority to administer the 1997 Plan, including with respect to the selection of key employees and consultants who are to receive Stock Options or Performance Awards (together, Awards), the specific form of any Award, and the specific terms and conditions of each Award.

Shares Available for Award. The 1997 Plan provides that the aggregate number of shares that may be issued thereunder shall be the sum of (i) 750,000, plus (ii) the number of shares as to which options granted under the 1979 Plan terminate or expire without being fully exercised, plus (iii) effective as of January 1, 1998 and each of the three successive years thereafter, a number of shares equal to two percent of the total number of shares of Ionics common stock issued and outstanding as of the close of business on December 31 of the preceding year. In addition, an additional 800,000 shares of Ionics common stock were made available for issuance under the 1997 Plan following approval by Ionics stockholders at the 2002 Annual Meeting. As of November 30, 2003, a total of 3,146,690 shares had been made available for Awards under the 1997 Plan.

General Provisions. The 1997 Plan contains provisions to prevent dilution in case of stock dividends, stock splits and changes in Ionics capital structure. The 1997 Plan may be terminated or amended at any time by the Ionics Board of Directors, except that the Ionics Board of Directors does not have the power to revoke or alter the terms of any valid Award previously granted pursuant to the 1997 Plan that would impair the rights of any participant without the participant s consent, to reprice outstanding Stock Options, or, without the approval of the stockholders, to (i) increase the number of shares of common stock to be reserved for issuance and sale pursuant to Awards under the 1997 Plan, or (ii) change the description of individuals to whom Awards may be granted pursuant to the 1997 Plan.

Nature of Awards. Under the 1997 Plan, the Committee may grant non-qualified Stock Options (NQOs), incentive Stock Options (ISOs) and Performance Awards. The Committee has awarded only NQOs under the 1997 Plan and has no present intention of making other types of Awards, although it has the flexibility of being able to do so.

Stock Options. Under the 1997 Plan, Stock Options may be granted by the Committee until the tenth anniversary of the adoption of the 1997 Plan. Stock Options may extend for a period of up to 10 years from the date of grant, with the actual term to be established by the Committee at the time of grant. Unless otherwise provided by the Committee, Stock Option grants will not be exercisable for at least six months following grant, and become exercisable in installments typically over a five-year period. The Committee has the discretion to grant either ISOs or NQOs under the 1997 Plan, but to date has issued only NQOs. No more than 750,000 shares may be issued pursuant to the exercise of ISOs granted under the 1997 Plan. Both ISOs and NQOs must have an exercise price not less than fair market value (generally, the closing price of Ionics common stock as reported on the NYSE on the date of grant). The Committee has the discretion in the event the employment of an option holder is terminated to take such action in respect of the Stock Option as the Committee may deem appropriate, including accelerating the time that must pass before Stock Options may be exercised, and (except with respect to ISOs) extending the time following termination of employment during which the option holder is entitled to exercise the Stock Option, provided that in no event may any Stock Option be exercised after the expiration of its term. The Committee also has the discretion to issue NQOs which remain exercisable following termination of employees (but not beyond the expiration of the NQO s term) Stock Options are non-transferable and non-assignable other than by inheritance, except that, with the approval of the Committee, NQOs may be transferred by option holders to immediate family members, trusts established for their benefit or partnerships in which such immediate family members are the only partners. Under the 1997 Plan, no participant can receive an Award in any 12-month period that would result in the issuance to that individual of more than 200,000 shares of common stock.

The purchase price for shares of common stock upon the exercise of Stock Options generally may be paid either in cash, by delivering to Ionics such number of shares of common stock owned by the option holder that, together with any cash tendered, will equal in value the full purchase price, or by other cashless exercise methods specified in the 1997 Plan. Permitting stock-for-stock payments or other cashless exercises allows option holders to acquire shares of common stock without incurring the costs that may arise when the exercise price must be paid in cash.

Long-Term Performance Awards. The Committee may grant Performance Awards under the 1997 Plan. No more than 150,000 shares of common stock may be issued in connection with Performance Awards granted under the 1997 Plan. The Committee has the discretion to consider nature, length, and starting date of the performance period for a particular Performance Award, which shall be at least one year. A participant may be awarded cash or common stock, or both, upon attainment of Performance Award goals. To date, no Performance Awards have been issued under the 1997 Plan.

Certain Federal Income Tax Information

The following discussion of the United States federal income tax consequences of the issuance and exercise of Stock Options and other Awards granted under the 1997 Plan is based upon provisions of the Code as in effect on the date of this Proxy Statement, current regulations, and existing administrative rulings of the Internal Revenue Service. It is not intended to be a complete discussion of all of the federal income tax consequences of the 1997 Plan or of the requirements that must be met in order to qualify for the described tax treatment. In addition there may be foreign, state or local tax consequences that are not discussed herein.

A. *Incentive Stock Options (ISOs).* The following general rules are applicable under current United States federal income tax law to ISOs granted under the 1997 Plan:

1. In general, an optionee will not recognize any taxable income upon the grant of an ISO or upon the issuance of shares to him or her upon the exercise of an ISO, and Ionics will not be entitled to a federal income tax deduction upon either the grant or the exercise of an ISO.

2. If shares acquired upon exercise of an ISO are not disposed of within (i) two years from the date the ISO was granted or (ii) one year after the date the shares are issued to the optionee pursuant to the ISO exercise (the Holding Periods), the difference between the amount realized on any subsequent disposition of the shares and the exercise price will generally be treated as capital gain or loss to the optionee.

3. If shares acquired upon exercise of an ISO are disposed of and the optionee does not satisfy the Holding Periods (a Disqualifying Disposition), then in most cases the lesser of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the exercise price or (ii) the actual gain on disposition, will be taxed to the optionee as ordinary income in the year of such disposition.

4. In any year that an optionee recognizes ordinary income upon a Disqualifying Disposition of shares acquired upon the exercise of an ISO, Ionics generally will be entitled to a corresponding federal income tax deduction.

5. The difference between the amount realized by an optionee as the result of a Disqualifying Disposition and the sum of (i) the exercise price and (ii) the amount of ordinary income recognized under the above rules generally will be treated as capital gain or loss.

6. Capital gain or loss recognized by an optionee on a disposition of shares will be long-term capital gain or loss if the optionee s holding period for the shares exceeds one year.

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7. An optionee may be entitled to exercise an ISO by delivering shares of Ionics common stock to Ionics in payment of the exercise price, if the optionee s ISO agreement so provides. If an optionee exercises an ISO in such fashion, special rules apply.

8. In addition to the tax consequences described above, the exercise of an ISO may result in additional tax liability under the alternative minimum tax rules. The alternative minimum tax rate (the maximum rate is 28%) will be applied against a taxable base which is equal to alternative minimum taxable income, reduced by a statutory exemption. In general, the amount by which the value of the shares received upon exercise of the ISO exceeds the exercise price is included in the optionee s alternative minimum taxable income. A taxpayer who pays the alternative minimum tax attributable to the exercise of an ISO may be entitled to a tax credit against his or her regular tax liability in later years.

9. Special rules apply if the shares acquired upon the exercise of an ISO are subject to vesting, or are subject to certain restrictions on resale under federal securities law applicable to directors, officers or 10% stockholders.

B. *Non-Qualified Stock Options (NQOs).* The following general rules are applicable under current United States federal income tax law to options granted under the 1997 Plan which do not qualify as ISOs:

1. In general, an optionee will not recognize any income upon the grant of an NQO, and Ionics will not be entitled to a federal income tax deduction upon such grant.

2. An optionee generally will recognize ordinary income at the time of exercise of the NQO in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price. Ionics may be required to withhold income tax on this amount.

3. When an optionee sells the shares acquired upon the exercise of an NQO, he or she generally will recognize capital gain or loss in an amount equal to the difference between the amount realized upon the sale of the shares and the optionee s basis in the shares (generally, the exercise price plus the amount taxed to the optionee as ordinary income). If the optionee s holding period for the shares exceeds one year, such gain or loss will be long-term capital gain or loss.

4. When an optionee recognizes ordinary income attributable to an NQO, Ionics generally will be entitled to a corresponding federal income tax deduction.

5. An optionee may be entitled to exercise an NQO by delivering shares of Ionics common stock to Ionics in payment of the exercise price. If an optionee exercises an NQO in such fashion, special rules apply.

6. Special rules apply if the shares acquired upon the exercise of an NQO are subject to vesting, or are subject to certain restrictions on resale under federal securities law applicable to directors, officers or 10% stockholders.

C. *Long-Term Performance Awards (Performance Awards).* The following general rules are applicable under current federal income tax law to Performance Awards that may be granted under the 1997 Plan.

1. Persons receiving shares or cash pursuant to Performance Awards under the 1997 Plan will recognize ordinary income in an amount equal to the fair market value of the Performance Award less any purchase price paid.

2. Ionics generally will be entitled to a corresponding income tax deduction when such person recognizes ordinary income.

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D. *Restricted Stock.* The following general rules are applicable under current United States federal income tax law to Restricted Stock that the Committee may have the authority to grant under the 1997 Plan if the Restricted Stock Proposal is approved:

1. If a person receiving Restricted Stock makes an election under Section 83(b) of the Code with respect to the Restricted Stock, such person generally must include in gross income for the year of transfer, as ordinary income, the excess, if any, of the fair market value of the Restricted Stock at the time of transfer over the price paid for the Restricted Stock. Ionics may be required to withhold income tax on this amount. If such person forfeits all or part of the Restricted Stock, such person will not be allowed any tax deduction for the amount included in gross income as a result of the election under Section 83(b) of the Code that is attributable to the forfeited Restricted Stock. If such person subsequently sells or otherwise disposes of the Restricted Stock in a taxable transaction, any appreciation in the value of the Restricted Stock since such person acquired it and made an election under Section 83(b) of the Code generally will be taxed as capital gain, rather than ordinary income, and such person s holding period for capital gain purposes will begin just after the date of receipt of the Restricted Stock.

2. If a person receiving Restricted Stock does not make an election under Section 83(b) of the Code with respect to the Restricted Stock, such person generally must include in gross income for each year of vesting, as ordinary income, the excess, if any, of the fair market value of the Restricted Stock at the time the Restricted Stock vests over the price such person paid for the Restricted Stock. Ionics may be required to withhold income tax on this amount. If such person subsequently sells or otherwise disposes of the Restricted Stock in a taxable transaction, any appreciation in the value of the Restricted Stock since the Restricted Stock vested in such person generally will be taxed as capital gain, rather than ordinary income, and such person s holding period for capital gain purposes will begin just after the Restricted Stock vests in such person.

3. Ionics generally will be entitled to a corresponding income tax deduction when a recipient of Restricted Stock recognizes ordinary income.

E. *Deduction Limitations.* Although Ionics may be entitled to compensation tax deductions in connection with certain of the rights it grants under the Plan, as described generally above, there are several provisions of the Code which could limit the amount of tax deductions to which Ionics may be entitled. Among other limitations, Section 162(m) of the Code generally limits deductions for compensation in excess of $1 million paid to each of certain executive officers in any year.

Effect on 1997 Plan of Change in Control of Ionics

In the event of a Change in Control of Ionics (defined below), the Committee may accelerate the vesting of outstanding stock options, and cause outstanding Performance Awards to be paid out in cash, based on prorated target results for the performance periods in question.

A Change in Control is defined as the acquisition by an individual, entity or group, of beneficial ownership of 20% or more of either the outstanding common stock or combined voting power of all voting securities of Ionics; continuing directors constituting less than a majority of the Board; a business combination in which stockholders of Ionics prior to the business combination do not own beneficially more than 60% of the then outstanding shares of common stock and the combined voting power of the entity resulting from the business combination; or a complete dissolution, liquidation, or sale of substantially all the assets of Ionics other than to an entity of which former stockholders of Ionics own more than 60% of the outstanding voting stock and the combined voting power of such entity.

In connection with its approval of the Acquisition, the Ionics Board of Directors has determined that the issuance of the shares of Ionics common stock in connection with the Acquisition does not constitute a Change in Control under the 1997 Plan.

Stock Options Granted Under the 1997 Plan Since Its Inception

The following table sets forth as of November 30, 2003 all Stock Options granted under the 1997 Plan since its inception to (i) each of the Named Executive Officers appearing in the Compensation Table on page 14 of Ionics proxy statement dated April 9, 2003 prepared in connection with Ionics 2003 annual meeting, (ii) all current executive officers of Ionics, as a group, and (iii) all employees who are not executive officers of Ionics, as a group. No Performance Awards have been granted under the 1997 Plan since its inception. Non-employee directors of Ionics are not eligible to participate in the 1997 Plan. No associate (as such term is defined in Exchange Act Rule 14a-1) of the below listed individuals has received any Stock Options granted under the 1997 Plan. No individual, other than one named below, has received five percent or more of the Stock Options granted under the 1997 Plan. Future awards are in the discretion of the Compensation Committee of the Ionics Board of Directors and cannot be determined at this time.

Name and Principal Position	Number of Shares Represented by Stock Options Granted Under 1997 Plan
Arthur L. Goldstein* Chairman of the Board; President until April 1, 2002, and Chief Executive Officer until July 1, 2003	300,000
Alan M. Crosby Vice President, Consumer Water Group	45,000
Stephen Korn Vice President, General Counsel and Clerk	105,000
Daniel M. Kuzmak Vice President and Chief Financial Officer	30,000
Theodore G. Papastavros Executive Vice President and Treasurer	122,500
All Current Executive Officers**	553,500
All Employees who are not Executive Officers	1,741,500

* Received more than five percent of the Stock Options granted under the 1997 Plan.

** Neither Douglas R. Brown, Ionics President since April 1, 2003, and Chief Executive Officer since July 1, 2003, nor John F. Curtis, Vice President, Strategy and Operations since August 28, 2003, has been granted stock options under the 1997 Plan. See Equity Compensation Plan Information beginning on page 82 for information regarding options that have been granted to Messrs. Brown and Curtis. Does not include options granted to Mr. Goldstein, who ceased serving as an executive officer on July 1, 2003.

Executive Compensation and Other Information

Ionics stockholders should review the 1997 Plan attached to this Proxy Statement as Annex D. Stockholders should also consider the matters discussed in this Proxy Statement under the headings, Equity Compensation Plan Information and Executive Compensation and Other Information in connection with their consideration of the Restricted Stock Proposal.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists as of November 30, 2003, the number of shares of Ionics common stock beneficially owned by stockholders known by Ionics to own more than five percent of such common stock outstanding at such date:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR Corporation Fidelity Management and Research Company 82 Devonshire Street Boston, MA 02109	2,145,292(1)	12.1%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	1,988,400(2)	11.2%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90801	1,106,295(3)	6.2%

(1) Includes sole voting power as to 828,392 shares and sole dispositive power as to all 2,145,292 shares. FMR Corporation has no shared voting power or shared dispositive power as to any of these shares. Also includes 1,316,900 shares beneficially owned by Fidelity Management and Research Company, a wholly owned subsidiary of FMR Corporation, as a result of acting as investment advisor to various investment companies. The sole power to vote these shares resides with the boards of trustees of these investment companies.

(2) Includes sole voting power as to 363,600 shares and sole disposition power as to all 1,988,400 shares. T. Rowe Price Associates, Inc. has no shared voting power or shared disposition power as to any of these shares.

(3) Includes sole voting power and sole dispositive power as to all 1,106,295 shares. Dimensional Fund Advisors, Inc. has no shared voting power or shared dispositive power as to any of these shares.

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The following table sets forth as of November 30, 2003 the number of shares of common stock of Ionics beneficially owned by each of the directors, each of the executive officers named in the Summary Compensation Table appearing elsewhere in this Proxy Statement, and all directors and executive officers of Ionics as a group. Unless otherwise indicated, the named person possesses sole voting and dispositive power with respect to the shares.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(#)	Percent of Class
Douglas R. Brown	151,031(1)	*
Stephen L. Brown	10,229(2)	*
Kathleen F. Feldstein	17,030(3)	*
Arthur L. Goldstein	748,294(4)	4.1%
William K. Reilly	10,229(5)	*
John J. Shields	23,209(6)	*
Daniel I.C. Wang	19,172(7)	*
Mark S. Wrighton	24,272(8)	*
Allen S. Wyett	25,000(9)	*
Alan M. Crosby	40,295(10)	*
Stephen Korn	128,808(11)	*
Daniel M. Kuzmak	12,150(12)	*
Theodore G. Papastavros	202,211(13)	1.1%
All directors and executive officers as a group (18 persons)	1,563,274(14)	8.2%

The number of shares of common stock deemed outstanding as of November 30, 2003 for each individual includes shares of common stock outstanding on such date owned by such individual and all shares of common stock subject to stock options held by such individual exercisable as of such date or within 60 days after such date.

* Less than 1%

(1) Includes 139,000 shares which Mr. Douglas Brown has the right to acquire pursuant to the exercise of stock options.

(2) Includes 8,000 shares which Mr. Stephen Brown has the right to acquire pursuant to the exercise of stock options.

(3) Includes 14,000 shares which Ms. Feldstein has the right to acquire pursuant to the exercise of stock options.

(4) Includes 458,000 shares which Mr. Goldstein has the right to acquire pursuant to the exercise of stock options. Includes beneficial ownership of 7,559 shares held in the Ionics Section 401(k) Stock Savings Plan (the 401(k) Plan) for the account of Mr. Goldstein.

(5) Includes 8,000 shares which Mr. Reilly has the right to acquire pursuant to the exercise of stock options.

(6) Includes 18,500 shares which Mr. Shields has the right to acquire pursuant to the exercise of stock options.

(7) Includes 16,000 shares which Mr. Wang has the right to acquire pursuant to the exercise of stock options.

(8) Includes 21,000 shares which Mr. Wrighton has the right to acquire pursuant to the exercise of stock options. A total of 667 shares are held of record by Mark S. Wrighton, trustee of the Mark S. Wrighton Revocable Trust U/A dated September 4, 1998.

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(9) Includes 21,000 shares which Mr. Wyett has the right to acquire pursuant to the exercise of stock options.

(10) Includes 37,400 shares which Mr. Crosby has the right to acquire pursuant to the exercise of stock options. Includes beneficial ownership of 2,437 shares in the Ionics Section 401(k) Plan for the account of Mr. Crosby.

(11) Includes 126,000 shares which Mr. Korn has the right to acquire pursuant to the exercise of stock options. Includes beneficial ownership of 1,585 shares in the Ionics Section 401(k) Plan for the account of Mr. Korn.

(12) Includes 11,000 shares which Mr. Kuzmak has the right to acquire pursuant to the exercise of stock options, and beneficial ownership of 1,150 shares in the Ionics Section 401(k) Plan for the account of Mr. Kuzmak.

(13) Includes 137,500 shares which Mr. Papastavros has the right to acquire pursuant to the exercise of stock options. Includes beneficial ownership of 5,111 shares in the Ionics Section 401(k) Plan for the account of Mr. Papastavros.

(14) Assumes exercise of options held by the group for all 1,161,800 shares and that such shares are outstanding.

The information provided in the above footnotes concerning beneficial ownership in the Ionics Section 401(k) Plan is derived from Plan information as of November 30, 2003.

EQUITY COMPENSATION PLAN INFORMATION

	(a)	(b)		(c)
Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options Warrants and Rights**		**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))**
Equity compensation plans approved by security holders	3,074,717	$27.77		1,030,423
Equity compensation plans not approved by security holders	700,000	$17.83		