IONICS INC
Form 10-Q
August 09, 2001

[LOGO] IONICS

Worldwide Headquarters
Ionics, Incorporated
65 Grove Street
Watertown, Massachusetts
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August 9, 2001

Securities and Exchange Commission
Filing Desk, Room 1004
450 Fifth Street, N.W.
Washington, DC 20549

Re: Ionics, Incorporated (Commission File No. 1-7211) filing of Form 10-Q for quarter ended June 30, 2001, Account No. 0000052466

Ladies and Gentlemen:

I enclose via electronic filing pursuant to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) System on behalf of Ionics, Incorporated (the Company), the Form 10Q for the quarter ended June 30, 2001. Please acknowledge receipt of this electronic filing by return email to the Company's email address: plynes@ionics.com.

A manually signed copy of the Form 10-Q will be kept on file at the offices of the Company.

If you have any questions or require further information, please contact the undersigned at 617-926-2510, ext. 450.

Very truly yours,

/s/Stephen Korn
Stephen Korn
Vice President and
General Counsel

Enc.

cc: Arthur L. Goldstein, Chairman and Chief Executive Officer
Daniel M. Kuzmak, Vice President, Finance and Chief Financial Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2001

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or

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

For the transition period from ______ to ______

Commission File Number: 1-7211

IONICS, INCORPORATED
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-2068530
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

65 Grove Street Watertown, Massachusetts	02472
(Address of principal executive offices)	(Zip Code)

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

Former name, former address and former fiscal year, if changed since last report: None

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

Yes X No ___

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

At June 30, 2001 the Company had 17,385,542 shares of Common Stock, par value $1 per share, outstanding.

IONICS, INCORPORATED
FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2001

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PART I - FINANCIAL INFORMATION

IONICS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share amounts)

	Three months ended June 30,	
	2001	2000
Revenue:		
Equipment Business Group	$ 51,770	$ 42,405
Ultrapure Water Group	25,214	26,558
Consumer Water Group	30,247	26,933
Instrument Business Group	6,443	6,908
	113,674	102,804
Costs and expenses:		
Cost of sales of Equipment Business Group	39,951	31,079
Cost of sales of Ultrapure Water Group	20,260	21,378
Cost of sales of Consumer Water Group	15,525	14,899
Cost of sales of Instrument Business Group	2,990	2,761
Research and development	1,609	1,827
Selling, general and administrative	27,580	24,086
	107,915	96,030
Income from operations	5,759	6,774
Interest income	746	318

Interest expense	(1,448)	(1,202)	
Equity income	589	639	
Income before income taxes and minority interest	5,646	6,529	
Provision for income taxes	1,920	2,221	
Income before minority interest	3,726	4,308	
Minority interest in losses (earnings)	443	(93)	
Net income	$ 4,169	$ 4,215	
Basic earnings per share	$ 0.24	$ 0.26	
Diluted earnings per share	$ 0.24	$ 0.26	
Shares used in basic earnings per share calculations	17,100	16,216	
Shares used in diluted earnings per share calculations	17,183	16,429	

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

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IONICS, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Amounts in thousands, except share and par value amounts)

	June 30, 2001
ASSETS	
Current assets:	
Cash and cash equivalents	$ 25,855
Short-term investments	600
Notes receivable, current	4,616
Accounts receivable	158,205
Receivables from affiliated companies	2,026
Inventories:	
Raw materials	23,734
Work in process	11,862
Finished goods	4,967
	40,563
Other current assets	13,256
Deferred income taxes	12,749
Total current assets	257,870

Notes receivable, long-term	21,807
Investments in affiliated companies	23,531
Property, plant and equipment:	
Land	8,640
Buildings	48,198
Machinery and equipment	315,112
Other, including furniture, fixtures and vehicles	51,410
	423,360
Less accumulated depreciation	(203,925)
	219,435
Other assets	56,574
Total assets	$ 579,217
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable and current portion of long-term debt	$ 66,099
Accounts payable	40,912
Customer deposits	8,095
Accrued commissions	2,563
Accrued expenses	32,664
Taxes on income	1,487
Total current liabilities	151,820
Long-term debt and notes payable	10,568
Deferred income taxes	26,811
Other liabilities	6,169
Stockholders' equity:	
Common stock, par value $1, authorized shares: 55,000,000; issued: 17,385,542 in 2001 and 16,369,029 in 2000	17,385
Additional paid-in capital	186,006
Retained earnings	204,780
Accumulated other comprehensive income	(24,322)
Total stockholders' equity	383,849
Total liabilities and stockholders' equity	$ 579,217

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

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

Six Months
June 3

Operating activities:	2001
Net income	$ 7,164
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	17,676
Provision for losses on accounts and notes receivable	2,924
Compensation expense on restricted stock awards	-
Changes in assets and liabilities:	
Notes receivable	(4,467)
Accounts receivable	(2,337)
Inventories	(6,291)
Other current assets	2,876
Investments in affiliates	(5,445)
Accounts payable and accrued expenses	(12,366)
Income taxes	1,686
Other	506
Net cash provided (used) by operating activities	1,926
Investing activities:	
Additions to property, plant and equipment	(18,402)
Disposals of property, plant and equipment	1,185
Acquisitions, net of cash acquired	-
Sale (Purchase) of short-term investments	452
Net cash used by investing activities	(16,765)
Financing activities:	
Principal payments on current debt	(54,222)
Proceeds from borrowings of current debt	45,918
Principal payments on long-term debt	(847)
Proceeds from borrowings of long-term debt	227
Proceeds from issuance of common stock	21,814
Proceeds from stock option plans	3,095
Net cash provided by financing activities	15,985
Effect of exchange rate changes on cash	(788)
Net change in cash and cash equivalents	358
Cash and cash equivalents at beginning of period	25,497
Cash and cash equivalents at end of period	$ 25,855

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

IONICS, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

In the opinion of the management of Ionics, Incorporated (the "Company"), all adjustments have been made that are necessary to present fairly the consolidated financial position of the Company, the consolidated results of its operations and the consolidated cash flows for each period presented. The consolidated results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These financial statements should be read in conjunction with the Company's 2000 Annual Report as filed on Form 10-K with the Securities and Exchange Commission. Other than noted below, there have been no significant changes in the information reported in those Notes, other than from the normal business activities of the Company, and there have been no changes which would, in the opinion of management, have a materially adverse effect upon the Company.

2. Earnings per share (EPS) calculations

(Amounts in thousands, except p

For the three months ende

	2001			
	Net Income	Shares	Per Share Amount	Net Income
Basic EPS				
Income available to common stockholders	$ 4,169	17,100	$ 0.24	$ 4,215
Effect of dilutive stock options	-	83	-	-
Diluted EPS	$ 4,169	17,183	$ 0.24	$ 4,215

For the six months ended Jun

	2001			
	Net Income	Shares	Per Share Amount	Net Income
Basic EPS				
Income available to common stockholders	$ 7,164	16,746	$ 0.43	$ 7,777
Effect of dilutive stock options	-	140	(0.01)	-
Diluted EPS	$ 7,164	16,886	$ 0.42	$ 7,777

The effect of dilutive stock options excludes those stock options for which the impact would have been antidilutive based on the exercise price of the options. The number of options that were antidilutive at the three months ended June 30, 2001 and 2000 was 1,555,834 and 1,715,684, respectively. The number of options that were antidilutive at the six months ended June 30, 2001 and 2000 was 1,541,234 and 1,665,084, respectively.

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3. Comprehensive Income

The table below sets forth comprehensive income as defined by Statement of Financial Accounting Standard No. 130 for the three month and six month periods ended June 30, 2001 and 2000, respectively.

	(Amounts in thousands)			
	Three Months Ended June 30,		Six Months Ende June 30,	
	2001	2000	2001	
Net income	$ 4,169	$ 4,215	$ 7,164	
Other comprehensive income, net of tax:				
Translation adjustments	(494)	(1,166)	(5,084)	
Comprehensive income	$ 3,675	$ 3,049	$ 2,080	

4. Segment Information

The following table summarizes the Company's operations by the four business group segments and "Corporate" (Corporate includes the elimination of intersegment transfers).

	For the three months ended June 30,				
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated customers	$51,770	$ 25,214	$ 30,247	$ 6,443	
Inter-segment transfers	590	785	-	316	
Gross profit	11,819	4,954	14,722	3,453	

	For the three months ended June 30, 2				
	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C

(Amounts in thousands)				
Revenue - unaffiliated customers	$42,405	$ 26,558	$ 26,933	$ 6,908
Inter-segment transfers	456	1,339	-	986
Gross profit	11,326	5,180	12,034	4,147

For the six months ended June 30, 20

	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated customers	$103,751	$ 59,062	$ 59,592	$ 14,231	
Inter-segment transfers	1,987	1,966	-	998	
Gross profit	23,800	13,122	26,063	7,802	

For the six months ended June 30, 200

	Equipment Business Group	Ultrapure Water Group	Consumer Water Group	Instrument Business Group	C
(Amounts in thousands)					
Revenue - unaffiliated customers	$83,761	$ 54,304	$ 53,352	$ 14,182	
Inter-segment transfers	2,038	1,564	-	1,372	
Gross profit	21,277	11,061	22,752	8,143	

5. Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. Implementation of SFAS No. 141 is required for fiscal years beginning after December 15, 2001.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of assets (but not those acquired in a business combination) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. The provisions of this Statement are required to be applied with fiscal years beginning after December 15, 2001. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle.

SFAS Nos. 141 and 142 were issued very recently, and consequently the Company has not yet determined what effect, if any, the adoption of SFAS Nos. 141 and 142 will have on the Company's financial position or results of operations.

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

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2001 with the Three and Six Months Ended June 30, 2000

Revenues for the second quarter of 2001 increased 10.6% and net income decreased 1.1%, compared to the results of the second quarter of 2000. Revenues for the first six-month period of 2001 increased 15.1% while net income decreased 7.9% from the comparable six-month period in 2000. Gross profit was $34.9 million in the second quarter of 2001 compared to $32.7 million in the second quarter of 2000. For the first six-month period of 2001, gross profit was $70.8 million compared to $63.2 million for the first six-month period of 2000. Gross profit increased in the second quarter and first six-month period of 2001 for the Equipment Business Group (EBG) and the Consumer Water Group (CWG) as compared to similar periods in 2000. The Ultrapure Water Group's (UWG) gross profit decreased in the second quarter of 2001 but increased for the first six-month period of 2001 from the comparable periods in 2000. Gross profit for the Instrument Business Group (IBG) decreased in the second quarter and first six-month period of 2001 from the comparable periods in 2000.

Total revenues for the second quarter of 2001 increased 10.6% to $113.7 million from $102.8 million in 2000. For the second quarter of 2001, revenues were higher in EBG and CWG but lower in UWG and IBG as compared to the same period in 2000. Revenues for the first six-month period of 2001 increased 15.1% to $236.6 million from $205.6 million in the comparable 2000 period. Revenues were higher in all four business groups in the first six-month period of 2001, compared to the same period in 2000.

EBG revenues increased 22.1% in the second quarter and increased 23.9% in the first six-month period of 2001, as compared with the same respective periods of 2000. These increases came primarily from higher capital equipment sales and the continuing work in 2001 on a desalination facility in Trinidad.

UWG revenues decreased $1.3 million, or 5.1%, in the second quarter of 2001 from the second quarter of 2000. This decrease was due primarily to lower revenues in the Company's Malaysian and Australian subsidiaries. UWG revenues increased $4.8 million, or 8.8%, in the first six-months of 2001 compared to the first six months of 2000. This increase was the result of increased capital equipment sales to the microelectronics industry.

The revenues of CWG increased $3.3 million, or 12.3%, in the second quarter of 2001 compared to the second quarter of 2000. Similarly, CWG revenues increased $6.2 million, or 11.7%, in the first six-month period of 2001 compared to the first six-month period of 2000. These increases were due to continued growth in both the bottled water and home water businesses.

IBG revenues decreased $0.5 million, or 6.7%, in the second quarter of 2001 compared to the second quarter of 2000. Revenues for the first six-month period of 2001 were approximately the same as revenues for the first six-month period of 2000.

Cost of sales as a percentage of revenue for the second quarter was 69.3% in

2001 and 68.2% in 2000. For the six-month period, cost of sales as a percentage of revenue was 70.1% in 2001 and 69.2% in 2000.

Cost of sales as a percentage of revenues increased for EBG and IBG for both the second quarter and six-month periods of 2001, as compared to the respective periods in 2000. UWG's cost of sales as a percentage of revenues was relatively unchanged in the second quarter of 2001, as compared to the second quarter of 2000, but decreased in the first half of 2001 compared to the first half of 2000. Cost of sales as a percentage of revenue for CWG decreased in the second quarter and first half of 2001 compared to the second quarter and first half of 2000. EBG's cost of sales percentage increased to 77.2% and to 77.1% in the second quarter and first half of 2001, respectively, as compared to 73.3% and 74.6% in the same respective periods in 2000. The increases in this percentage for EBG primarily reflect a shift in business mix to lower margin capital equipment. IBG's cost of sales percentage increased to 46.4% and 45.2% in the second quarter and first six months of 2001, respectively, from 40.0% and 42.6% in the second quarter and first six months of 2000, respectively. These increases were the result of a less favorable mix of sales in 2001 than in 2000, as well as lower sales volume in the second quarter of 2001. These increases were offset somewhat by decreases in the cost of sales as a percentage of revenues for UWG and CWG. UWG's cost of sales as a percentage of revenue in the second quarter of 2001 was relatively unchanged from the percentage in the second quarter of 2000. Cost of sales as a percentage of revenue for the first half of 2001 decreased to 77.8% from 79.6% in the first half of 2000. This decrease was primarily due to improved performance in certain domestic operations but was offset by charges incurred by the Company's Malaysian and Australian subsidiaries in the second quarter of 2001. Cost of sales as a percentage of revenues for CWG decreased to 51.3% and 56.3% in the second quarter and first half of 2001, respectively, from 55.3% and 57.4% in the second quarter and first half of 2000, respectively. The decreases are due to both improved operations and a gain recognized on the sale of certain bottled water assets in the second quarter of 2001.

Operating expenses (Research and Development and Selling, General and Administrative) as a percentage of revenues increased during the second quarter of 2001 to 25.7% from 25.2% in 2000. For the six-month period, operating expenses as a percentage of revenues increased to 25.1% in 2001 from 24.7% in 2000. The increase in operating expenses as a percentage of revenues reflected primarily the expansion of the consumer water business sales force both domestically and in Europe during the second quarter of 2001.

Interest income of $0.7 million for the second quarter of 2001 increased from $0.3 million for the second quarter of 2000. Interest income of $1.0 million for the first half of 2001 increased from interest income of $0.6 million for the first half of 2000. Interest expense of $1.4 million and $3.1 million for the second quarter and first half of 2001, respectively, increased from $1.2 million and $1.9 million for the second quarter and first half of 2000, respectively. The increases in interest expense in 2001 reflect higher average borrowings by the Company.

Financial Condition

Working capital increased $20.7 million during the first six months of 2001 while the Company's current ratio increased to 1.7 at June 30, 2001 from 1.5 at December 31, 2000. At June 30, 2001, the Company had $25.9 million in cash and cash equivalents which is approximately the same amount as that at December 31, 2000. Notes payable and current portion of long-term debt decreased $8.9 million, and accounts payable decreased $15.1 million. Inventory and investments in affiliates increased $5.9 million and $5.2 million, respectively.

Cash provided by operating activities totaled $1.9 million during the first six months of 2001. The primary uses of cash for investing purposes during this period were for additions to property, plant and equipment. Significant expenditures were made for "own and operate" facilities and ongoing operations of the Company's bottled water business. Cash provided by financing activities was $16.0 million for the first half of 2001, due to proceeds from the issuance of common stock in a private placement and stock option exercises, partially offset by payments and borrowings of short-term debt.

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During 2001, construction has been continuing on the Trinidad desalination facility owned by Desalination Company of Trinidad and Tobago Ltd. (Desalcott), in which the Company has a 40% equity interest. During 2000 and through the first half of 2001, the Company loaned $10 million to the 60% equity owner, Hafeez Karamath Engineering Services Ltd. (HKES), as the source of HKES' equity contribution, in addition to the $10 million contributed by the Company for its 40% equity interest. Desalcott has entered into a "bridge loan" agreement with a Trinidad bank providing $60 million in construction financing. The bank has indicated that it is willing to increase the amount of the bridge loan to Desalcott, subject to certain conditions. Based on current estimates, the augmented bridge loan plus the $20 million of equity provided to Desalcott should provide sufficient funds to complete construction of the project. Although Desalcott has received proposals for long-term debt financing, there is no assurance that such financing will be obtained on terms acceptable to Desalcott or on a timely basis. If permanent financing is not obtained on a timely basis, or is insufficient to repay the bridge loan, Desalcott may be required to obtain additional funds to finance the project, and the Company has committed to lend Desalcott up to $10 million under such circumstance.

The Company completed a private placement of common stock to Fidelity Management & Research Company (Fidelity), on behalf of funds and accounts managed by Fidelity, in April 2001. 875,000 shares were sold at a price of $24.93 per share, and the total proceeds to the Company were approximately $21.8 million. The proceeds were used to reduce short-term borrowings. The Company filed a registration statement with the Securities and Exchange Commission covering the resale of these shares. The registration statement became effective on June 7, 2001.

On June 29, 2001, the Company entered into a Third Amended and Restated Revolving Credit Agreement with Fleet National Bank (as lender and agent) and Bank of America, N.A., the Chase Manhattan Bank, and Mellon Bank, N.A. (the "Credit Agreement"). Under the terms of the Credit Agreement, which supercedes a prior loan agreement with Fleet National Bank, the Company may borrow up to $90 million, subject to terms and financial covenants typical to such loan agreements.

The Company believes that its cash and cash equivalents, cash from operations, lines of credit and foreign exchange facilities are adequate to meet its currently anticipated needs.

Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. Implementation of SFAS No. 141 is required for fiscal years beginning after December 15, 2001.

In July 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of assets (but not those acquired in a business combination) at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. The provisions of this Statement are required to be applied with fiscal years beginning after December 15, 2001. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle.

SFAS Nos. 141 and 142 were issued very recently, and consequently the Company has not yet determined what effect, if any, the adoption of SFAS Nos. 141 and 142 will have on the Company's financial position or results of operations.

Quantitative and Qualitative Disclosures about Market Risk

Derivative Instruments and Market Risk

There has been no material change in the information reported in the Company's 2000 Annual Report as filed on Form 10-K with the Securities and Exchange Commission with respect to these risk matters.

Forward-Looking Information

Safe Harbor Statement under Private Securities Litigation Reform Act of 1995

The Company's future results of operations and certain statements contained in this report, including, without limitation, "Management's Discussion and Analysis of Results of Operations and Financial Condition," constitute forward-looking statements. Such statements are based on management's current views and assumptions and involve risks, uncertainties and other factors that could cause actual results to differ materially from management's current expectations. Among these factors are business conditions and the general economy; competitive factors, such as acceptance of new products and price pressures; risk of nonpayment of accounts receivable; risks associated with foreign operations; risks involved in litigation; regulations and laws affecting business in each of the Company's markets; market risk factors, as described above under "Derivative Instruments and Market Risks;" and other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On April 18, 2001, the Company sold 875,000 shares of its common stock, par value $1.00 per share, to certain funds and accounts managed by Fidelity Management and Research Company. The shares were sold at a purchase price equal to $24.93 per share for an aggregate consideration of approximately $21.8 million. The shares were sold in a private placement in reliance on Rule 506 of Regulation D under the Securities Act of 1933. No underwriters were involved with the issuance and sale of the shares. Pursuant to the terms of the stock purchase agreement executed in connection with the sale of the shares, on May 18, 2001, the Company filed a registration statement on Form S-3 (File No. 333-61196) with the Securities and Exchange Commission covering the resale of the shares. The registration statement became effective on June 7, 2001.

Item 4. Submission of Matters to a Vote of Security Holders

a) The Annual Meeting of the Stockholders was held on May 2, 2001. Stephen L. Brown, William K. Reilly, John J. Shields and Allen S. Wyett were reelected as Class III Directors for a three-year term. Continuing as Class I Directors until the 2002 Annual Meeting are Douglas R. Brown, Kathleen F. Feldstein, Arthur L. Goldstein and Carl S. Sloane. Continuing as Class II Directors until the 2004 Annual Meeting are Arnaud de Vitry d'Avaucourt, William E. Katz, Daniel I. C. Wang and Mark S. Wrighton. Each of the Class III Directors received at least the following votes "for" election and no more than the following votes withheld:

Votes for:	13,747,698
Votes withheld:	195,098

b) The other matter submitted for stockholder approval was ratification of the selection of PricewaterhouseCoopers LLP as the Company auditors for 2001. The following votes were cast:

Votes for:	13,868,419
Votes against:	62,938
Abstentions:	10,939
Broker non-votes:	500

Item 5. Other Information

On June 29, 2001, the Company replaced its principal revolving credit agreement with Fleet National Bank and entered into an amended and restated revolving credit agreement with Fleet National Bank (as agent and lender), Bank of America, N.A., The Chase Manhattan Bank and Mellon Bank, N.A. Under the credit agreement, the Company may borrow up to $90 million from the participating banks.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 4 - Instruments Defining the Rights of Security Holders

4.1 Third Amended and Restated Credit Agreement dated as of June 29, 2001, among the Company, Fleet National Bank (as agent and lender), Bank of America, N.A., The Chase Manhattan Bank and Mellon Bank, N.A.

4.2 Global Amendment and Affirmation Agreement dated as of June 29, 2001, among the Company, Fleet National Bank and certain subsidiaries of the Company.

b) Reports on Exhibit 8-K

A report on Exhibit 8-K was filed on April 24, 2001, reporting under Item 2 the sale by the Company of 875,000 shares of Common Stock in a private placement.

SIGNATURES

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

IONICS, INCORPORATED

Date: August 9, 2001

By: /s/Arthur L. Goldstein

Arthur L. Goldstein
Chairman and Chief Executive Officer
(duly authorized officer)

Date: August 9, 2001

By: /s/Daniel M. Kuzmak

Daniel M. Kuzmak
Vice President and
Chief Financial Officer
(principal financial officer)

EXHIBIT INDEX

EXHIBITS

4.1 Third Amended and Restated Credit Agreement dated as of June 29, 2001, among the Company, Fleet National Bank (as agent and lender), Bank of America, N.A., The Chase Manhattan Bank and Mellon Bank, N.A.

4.2 Global Amendment and Affirmation Agreement dated as of June 29, 2001, among the Company, Fleet National Bank and certain subsidiaries of the Company.

Exhibit 4.1
EXECUTION COPY

THIRD AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

Dated as of June 29, 2001

among

IONICS, INCORPORATED

FLEET NATIONAL BANK

and the other lending institutions set forth
on Schedule 1 hereto

and

FLEET NATIONAL BANK, as Agent

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List of Schedules and Exhibits

THIRD AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

This THIRD AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT is made as of June 29, 2001, by and among IONICS, INCORPORATED (the "Borrower"), a Massachusetts corporation having its principal place of business at 65 Grove Street, Watertown, MA 02472, and FLEET NATIONAL BANK, a national banking association and the other lending institutions listed on Schedule 1 and FLEET NATIONAL BANK as agent for itself and such other lending institutions.

WHEREAS, pursuant to a Second Amended and Restated Credit Agreement, dated as of July 28, 2000 (as amended and in effect from time to time, the "Prior Credit Agreement"), among the Borrower, Fleet and the Agent, Fleet made revolving credit loans and other extensions of credit to the Borrower; and

WHEREAS, the Borrower has requested among other things, to amend and restate the Prior Credit Agreement on the terms and conditions set forth herein and Fleet and the Agent are willing to amend and restate the Prior Credit Agreement on the terms and conditions set forth herein;

NOW THEREFORE, the Borrower, Fleet and the Agent agree that on the Closing Date the Prior Credit Agreement shall hereby be amended and restated in its entirety and shall remain in full force and effect only as set forth herein.

1. DEFINITIONS AND RULES OF INTERPRETATION.

1.1. Definitions. The following terms shall have the meanings set forth in this ss.1 or elsewhere in the provisions of this Credit Agreement referred to below:

Adjustment Date. The first day of the month immediately following the month in which a Compliance Certificate is to be delivered by the Borrower pursuant toss.8.4(c).

Affiliate. Any Person that would be considered to be an affiliate of the Borrower under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if the Borrower were issuing securities.

Agent. Fleet National Bank, acting as agent for the Banks.

Agent's Head Office. The Agent's office located at 100 Federal Street, Boston, Massachusetts 02110, or at such other location as the Agent may designate from time to time.

Agent's Special Counsel. Bingham Dana LLP or such other counsel as may be approved by the Agent.

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Applicable Margin. For each period commencing on an Adjustment Date through the date immediately preceding the next Adjustment Date (each a "Rate Adjustment Period"), the Applicable Margin shall be the applicable margin set forth below with respect to the Leverage Ratio as determined for the period ending on the fiscal quarter ended immediately preceding the applicable Rate Adjustment Period.

Level	Leverage Ratio	Prime Rate Loans	LIBOR Rate Loans	Letter of Credit Fee	Commit Fee R
I	Greater than or equal to 2.50:1.00	0.25%	2.00%	2.00%	0.37
II	Less than 2.50:1.00 but greater than or equal to 2.00:1.00	0.25%	1.75%	1.75%	0.37
III	Less than 2.00:1.00 but greater than or equal to 1.50:1.00	0.00%	1.50%	1.50%	0.25
IV	Less than 1.50:1.00	0.00%	1.25%	1.25%	0.25

Notwithstanding the foregoing, (a) until the delivery by the Borrower to the Agent of the Compliance Certificate pursuant to ss.8.4(c) for the period ending June 30, 2001, the Applicable Margin shall be the Applicable Margin set forth above in Level I, and (b) if the Borrower fails to deliver any Compliance Certificate pursuant to ss.8.4(c) hereof then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the highest Applicable Margin set forth above.

Asset Sale. Any one of series of related transactions in which any Person conveys, sells, transfers or otherwise disposes of, directly or indirectly, any of its properties, business or assets (including the sale or issuance of capital stock of any Subsidiary other than to the Borrower or any Subsidiary) whether owned on the Closing Date or thereafter acquired.

Assignment and Acceptance. See 19.1.

Balance Sheet Date. December 31, 2000.

Bank Affiliate. (a) With respect to any Bank, (i) an Affiliate of such Bank or (ii) any entity (whether a corporation, partnership, limited liability company, trust or legal entity) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Bank or an Affiliate of such Bank and (b) with respect to any Bank that is a fund which

invests in bank loans and similar extensions of credit, any other entity (whether a corporation, partnership, limited liability company, trust or other legal entity) that is a fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

Banks. Fleet and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Bank pursuant toss.19.

Borrower. As defined in the preamble hereto.

Business Day. Any day other than a Saturday or Sunday on which banking institutions in Boston, MA, are open for the transaction of banking business and, in the case of LIBOR Rate Loans, also a day which is a LIBOR Business Day.

Capital Assets. Fixed assets, both tangible (such as land, buildings, fixtures, machinery and equipment) and intangible (such as patents, copyrights, trademarks, franchises and good will); provided that Capital Assets shall not include any item customarily charged directly to expense or depreciated over a useful life of twelve (12) months or less in accordance with generally accepted accounting principles.

Capital Expenditures. Amounts paid or Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with (a) the purchase or lease by the Borrower or any of its Subsidiaries of Capital Assets that would be required to be capitalized and shown on the balance sheet of such Person in accordance with generally accepted accounting principles or (b) the lease of any assets by the Borrower or any of its Subsidiaries as lessee under any Synthetic Lease to the extent that such assets would have been Capital Assets had the Synthetic Lease been treated for accounting purposes as a Capitalized Lease.

Capitalization Documents. Collectively, the formation documents (including, without limitation, any certificate of incorporation and by-laws) of the Borrower and its Subsidiaries.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

CERCLA. Seess.7.17(a).

Closing Date. The first date on which the conditions set forth in ss.12 have been satisfied and any Revolving Credit Loans are to be made or any Letter of Credit is to be issued hereunder.

Code. The Internal Revenue Code of 1986.

Commitment. With respect to each Bank, the amount set forth on Schedule 1 hereto as the amount of such Bank's commitment to make Revolving Credit Loans

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to, and to participate in the issuance, extension and renewal of Letters of Credit for the account of, the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Fee. Seess.2.2.

Commitment Fee Rate. The applicable rate per annum set forth in the chart contained in the definition of Applicable Margin under the heading "Commitment Fee Rate".

Commitment Percentage. With respect to each Bank, the percentage set forth on Schedule 1 hereto as such Bank's percentage of the aggregate Commitments of all of the Banks.

Compliance Certificate. Seess.8.4(c).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Consolidated Subsidiaries, consolidated in accordance with generally accepted accounting principles.

Consolidated Net Income (or Deficit). The consolidated net income (or deficit) of the Borrower and its Subsidiaries, after deduction of all expenses, taxes, and other proper charges, determined in accordance with generally accepted accounting principles, after eliminating therefrom all extraordinary nonrecurring items of income and non-cash loss.

Consolidated Net Worth. The excess of Consolidated Total Assets over Consolidated Total Liabilities less, to the extent otherwise includable in the computation of Consolidated Net Worth, any subscriptions receivable.

Consolidated Subsidiaries. Any Subsidiary other than those Subsidiaries listed on Schedule 1.1.

Consolidated Total Assets. The sum of (a) all assets ("consolidated balance sheet assets") of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles, plus (b) without duplication, all assets leased by the Borrower or any Subsidiary as lessee under any synthetic lease referred to in clause (f) of the definition of the term "Indebtedness" to the extent that such assets would have been consolidated balance sheet assets had the synthetic lease been treated for accounting purposes as a Capitalized Lease, plus (c) without duplication, all sold receivables referred to in clause (g) of the definition of the term "Indebtedness" to the extent that such receivables would have been consolidated balance sheet assets had they not been sold.

Consolidated Total Interest Expense. For any period, the aggregate amount of interest required to be paid or accrued by the Borrower and its Subsidiaries during such period on all Indebtedness of the Borrower and its Subsidiaries outstanding during all or any part of such period, whether such

interest was or is required to be reflected as an item of expense or capitalized, including payments consisting of interest in respect of any Capitalized Lease, or any Synthetic Lease and including commitment fees, agency fees, facility fees, balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

Consolidated Total Liabilities. All liabilities of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles and classified as such on the consolidated balance sheet of the Borrower and its Subsidiaries and all other Indebtedness of the Borrower and its Subsidiaries, whether or not so classified.

Conversion Request. A notice given by the Borrower to the Agent of the Borrower's election to convert or continue a Loan in accordance withss.2.7.

Credit Agreement. This Third Amended and Restated Revolving Credit Agreement, including the Schedules and Exhibits hereto.

Default. Seess.13.1.

Delinquent Bank. Seess.15.5.3.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of capital stock of the Borrower, other than dividends payable solely in shares of common stock of the Borrower; the purchase, redemption, or other retirement of any shares of any class of capital stock of the Borrower, directly or indirectly through a Subsidiary of the Borrower or otherwise; the return of capital by the Borrower to its shareholders as such; or any other distribution on or in respect of any shares of any class of capital stock of the Borrower.

Dollars or $. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, located within the United States that will be making or maintaining Prime Rate Loans.

Drawdown Date. The date on which any Revolving Credit Loan is made or is to be made, and the date on which any Revolving Credit Loan is converted or continued in accordance with ss.2.7.

EBIT. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated Net Income (or Deficit) of the Borrower and its Subsidiaries for such fiscal period, plus (b) in each case to the extent deducted in the calculation of such Person's Consolidated Net Income and without duplication, (i) income tax expense for such period, plus (ii) Consolidated Total Interest Expense paid or accrued during such period, minus, (c) to the extent added in computing Consolidated Net Income, and without duplication, all noncash gains (including income tax benefits) for such period, all as determined in accordance with generally accepted accounting principles.

EBITDA. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated Net Income of the Borrower and its Subsidiaries for such fiscal period, plus (b) in each case to the extent deducted in the calculation of such Person's Consolidated Net Income and without duplication, (i) depreciation and amortization for such period, plus (ii) income tax expense for such period, plus (iii) Consolidated Total Interest Expense paid or accrued during such period, plus (iv) other noncash charges for such period, and minus, to the extent added in computing Consolidated Net Income, and without duplication, all noncash gains (including income tax benefits) for such period, all as determined in accordance with generally accepted accounting principles.

Eligible Assignee. Any of (a) a commercial bank or finance company organized under the laws of the United States, or any State thereof or the District of Columbia, and having total assets in excess of $1,000,000,000; (b) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof or the District of Columbia, and having a net worth of at least $100,000,000, calculated in accordance with generally accepted accounting principles; (c) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having total assets in excess of $1,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; (d) the central bank of any country which is a member of the OECD; and (e) if, but only if, any Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Agent, such approval not to be unreasonably withheld.

Employee Benefit Plan. Any employee benefit plan within the meaning of ss.3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Guaranteed Pension Plan or a Multiemployer Plan.

Environmental Laws. Seess.7.17(a).

EPA. Seess.7.17(b).

Equity Issuance. The sale or issuance by the Borrower or any of its Subsidiaries of any of its capital stock or equity interests or any warrants, rights or options to acquire its capital stock or equity interests.

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under ss.414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of ss.4043 of ERISA and the regulations promulgated thereunder.

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Eurocurrency Reserve Rate. For any day with respect to a LIBOR Rate Loan, the maximum rate (expressed as a decimal) at which any lender subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Event of Default. Seess.13.1.

Fleet. Fleet National Bank, a national banking association, in its individual capacity.

generally accepted accounting principles. (a) When used in ss.10, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general, other than as provided above, means principles that are (i) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time, and (ii) consistently applied with past financial statements of the Borrower adopting the same principles, provided that in each case referred to in this definition of "generally accepted accounting principles" a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of ss.3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantors. Collectively, each domestic Subsidiary of the Borrower (other than the Inactive Subsidiaries) existing on the Closing Date and each other Person which is required to be or become a guarantor from time to time pursuant to ss.8.13 hereof. Each such Person shall be a party to a Guaranty.

Guaranty. Collectively, the Guaranty, dated as of July 28, 2000 and all other Guaranties required pursuant to ss.8.13 made by each Guarantor in favor of the Banks and the Agent pursuant to which each Guarantor guaranties to the Banks and the Agent the payment and performance of the Obligations and in form and substance satisfactory to the Banks and the Agent.

Hazardous Substances. Seess.7.17(b).

Inactive Subsidiaries. Ionics Tampa Bay, Inc., a Florida corporation and Springfield Elite Technologies, Inc., a Massachusetts corporation, so long as such Subsidiaries do not engage in any business activities whatsoever.

Indebtedness. As to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

(a) every obligation of such Person for money borrowed,

(b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses,

(c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person,

(d) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith),

(e) every obligation of such Person under any Capitalized Lease,

(f) every obligation of such Person under any lease (a "Synthetic Lease") treated as an operating lease under generally accepted accounting principles and as a loan or financing for U.S. income tax purposes,

(g) all sales by such Person of (i) accounts or general intangibles for money due or to become due, (ii) chattel paper, instruments or documents creating or evidencing a right to payment of money or (iii) other receivables (collectively "receivables"), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of such Person relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith,

(h) every obligation of such Person (an "equity related purchase obligation") to purchase, redeem, retire or otherwise acquire for value any shares of capital stock of any class issued by such Person, any warrants, options or other rights to acquire any such shares, or any rights measured by the value of such shares, warrants, options or other rights,

(i) every obligation of such Person under any forward contract, futures contract, swap, option or other financing agreement

or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices (a "derivative contract"),

(j) every obligation in respect of Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor and such terms are enforceable under applicable law, and

(k) every obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (j) (the "primary obligation") of another Person (the "primary obligor"), in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person (i) to purchase or pay (or advance or supply funds for the purchase of) any security for the payment of such primary obligation, (ii) to purchase property, securities or services for the purpose of assuring the payment of such primary obligation, or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such primary obligation.

The "amount" or "principal amount" of any Indebtedness at any time of determination represented by (u) any Indebtedness, issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with generally accepted accounting principles, (v) any Capitalized Lease shall be the principal component of the aggregate of the rentals obligation under such Capitalized Lease payable over the term thereof that is not subject to termination by the lessee, (w) any sale of receivables shall be the amount of unrecovered capital or principal investment of the purchaser (other than the Borrower or any of its wholly-owned Subsidiaries) thereof, excluding amounts representative of yield or interest earned on such investment, (x) any Synthetic Lease shall be the stipulated loss value, termination value or other equivalent amount, (y) any derivative contract shall be the maximum amount of any termination or loss payment required to be paid by such Person if such derivative contract were, at the time of determination, to be terminated by reason of any event of default or early termination event thereunder, whether or not such event of default or early termination event has in fact occurred and (z) any equity related purchase obligation shall be the maximum fixed redemption or purchase price thereof inclusive of any accrued and unpaid dividends to be comprised in such redemption or purchase price.

Ineligible Securities. Securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C.ss.24, Seventh), as amended.

Information Certificates. The Information Certificates, substantially in the form of Exhibit D hereto.

Intercompany Subordination Agreement. The Intercompany Subordination Agreement, dated as of July 28, 2000, among the Guarantors, the Borrower and the Agent.

Interest Payment Date. (a) As to any Prime Rate Loan, the last day of the calendar month with respect to interest accrued during such calendar month, including, without limitation, the calendar month which includes the Drawdown Date of such Prime Rate Loan; and (b) as to any LIBOR Rate Loan in respect of which the Interest Period is (i) three (3) months or less, the last day of such Interest Period and (ii) more than three (3) months, the date that is three (3) months from the first day of such Interest Period and, in addition, the last day of such Interest Period.

Interest Period. With respect to each Revolving Credit Loan, (a) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Loan Request or as otherwise required by the terms of this Credit Agreement (i) for any Prime Rate Loan, the last day of the calendar month; and (ii) for any LIBOR Rate Loan, 1, 2, 3 or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Revolving Credit Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period with respect to a LIBOR Rate Loan would otherwise end on a day that is not a LIBOR Business Day, that Interest Period shall be extended to the next succeeding LIBOR Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding LIBOR Business Day;

(ii) if any Interest Period with respect to a Prime Rate Loan would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(iii)if the Borrower shall fail to give notice as provided in ss.2.7, the Borrower shall be deemed to have requested a conversion of the affected LIBOR Rate Loan to a Prime Rate Loan and the continuance of all Prime Rate Loans as Prime Rate Loans on the last day of the then current Interest Period with respect thereto;

(iv) any Interest Period relating to any LIBOR Rate Loan that begins on the last LIBOR Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar

month at the end of such Interest Period) shall end on the last LIBOR Business Day of a calendar month; and

(v) any Interest Period that would otherwise extend beyond the Revolving Credit Loan Maturity Date shall end on the Revolving Credit Loan Maturity Date.

International Standby Practices. With respect to any standby Letter of Credit, International Standby Practices (ISP98), International Chamber of Commerce Publication No. 590, or any successor code of standby letter of credit practices among banks adopted by the Agent in the ordinary course of its business as a standby letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person. In determining the aggregate amount of Investments outstanding at any particular time: (a) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (b) may be deducted when paid; and (e) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Letter of Credit. Seess.4.1.1.

Letter of Credit Application. Seess.4.1.1.

Letter of Credit Fee. Seess.4.6.

Letter of Credit Participation. Seess.4.1.4.

Leverage Ratio. ___ As of any date of determination, the ratio of (a) Total Funded Indebtedness of the Borrower and its Subsidiaries outstanding on such date to (b) the EBITDA of the Borrower and its Subsidiaries for the Reference Period ended on such date.

LIBOR Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other LIBOR interbank market as may be selected by the Agent in its sole discretion acting in good faith.

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LIBOR Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, that shall be making or maintaining LIBOR Rate Loans.

LIBOR Rate. For any Interest Period with respect to a LIBOR Rate Loan, the rate of interest equal to (i) the rate determined by the Agent at which Dollar deposits for such Interest Period are offered based on information presented on Telerate Page 3750 as of 11:00 a.m. London time on the second LIBOR Business Day prior to the first day of such Interest Period divided by (ii) a number equal to 1.00 minus the Eurocurrency Reserve Rate, if applicable.

LIBOR Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the LIBOR Rate.

Loan Documents. This Credit Agreement, the Notes, the Guaranty, the Intercompany Subordination Agreement, the Letter of Credit Applications and the Letters of Credit.

Loan Request. Seess.2.6.

Majority Banks. As of any date, two or more Banks holding at least fifty-one percent (51%) of the outstanding principal amount of the Notes on such date; and if no such principal is outstanding, two or more Banks whose aggregate Commitments constitute at least fifty-one percent (51%) of the Total Commitment.

Maximum Drawing Amount. The maximum aggregate amount that the beneficiaries may at any time draw under outstanding Letters of Credit, as such aggregate amount may be reduced from time to time pursuant to the terms of the Letters of Credit.

Multiemployer Plan. Any multiemployer plan within the meaning ofss.3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Net Cash Proceeds. With respect to any Equity Issuances, the excess of the gross cash proceeds received by such Person for such Equity Issuance after deduction of all reasonable and customary transaction expenses (including without limitation, underwriting discounts and commissions) actually incurred in connection with such a sale or other issuance.

Net Cash Sale Proceeds. The net cash proceeds received by a Person in respect of any Asset Sale, less the sum of (a) all reasonable out-of-pocket fees, commissions and other reasonably and customary expenses actually incurred in connection with such Asset Sale, including the amount of income, franchise, sales and other applicable taxes required to be paid by such Person in connection with such Asset Sale, and (b) the aggregate amount of cash so received by such Person which is required to be used to retire (in whole or in part) any Indebtedness (other than under the Loan Documents) of such Person permitted by this Credit Agreement that was secured by a lien or security interest permitted by this Credit Agreement having priority over the liens and

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security interests (if any) of the Agent (for the benefit of the Agent and the Banks) with respect to such assets transferred and which is required to be repaid in whole or in part (which repayment, in the case of any other revolving credit arrangement or multiple advance arrangement, reduces the commitment thereunder) in connection with such Asset Sale.

Obligations. All indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to any of the Banks and the Agent, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect of any of the Revolving Credit Loans made or Reimbursement Obligations incurred or any of the Revolving Credit Notes, Letters of Credit Application, Letters of Credit, any foreign exchange contracts between the Borrower and any Bank, any interest rate protection arrangements between Borrower and any Bank, any other financial accommodations provided by any Bank to the Borrower under or in any manner related to or associated with any of the foregoing or other instruments at any time evidencing any thereof.

Operating Accounting. Seess.2.6.2.
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outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

PBGC. The Pension Benefit Guaranty Corporation created byss.4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Acquisitions. Any acquisition by the Borrower, or any of its domestic Subsidiaries of a material portion of the assets, a division or line of business or capital stock of a Person, provided (a) such assets or capital stock are related to the business of the Borrower or such Subsidiary, (b) no Default or Event of Default exists prior to or immediately after such acquisition, (c) the terms of such acquisition are on an arms length basis, (d) if as a result of such acquisition a new domestic Subsidiary is acquired or formed, ss.8.14 is complied with at the time of consummation of such acquisition (or concurrently therewith), (e) if the purchase price for such acquisition or the aggregate purchase price for all acquisitions made during any fiscal year shall exceed $5,000,000 during such fiscal year, the Borrower has demonstrated to the reasonable satisfaction of the Agent and the Majority Banks, set forth in a pro forma Compliance Certificate, compliance with ss.10 on a pro forma basis immediately prior to and after giving effect to any such acquisition, the calculation of which shall be based upon the financial statements delivered for the twelve (12) calendar month period immediately preceding such acquisition, (f) the board of directors and (if required by applicable law) the shareholders, or the equivalent thereof, of the business to be acquired has approved such acquisition, (g) if such acquisition is made by a merger, the Borrower or the applicable Subsidiary as the case may be, shall be the surviving entity, and (h) if the purchase price for such acquisition or the aggregate purchase price for all acquisitions made during any fiscal year shall exceed $5,000,000 during such

fiscal year, all other terms and conditions of, and documentation for, such acquisition are reasonably satisfactory to the Agent and the Banks.

Permitted Liens. Liens, security interests and other encumbrances permitted byss.9.2.

Person. Any individual, corporation, partnership, trust, unincorporated association, business, or other legal entity, and any government or any governmental agency or political subdivision thereof.

Prime Rate. The higher of (i) the annual rate of interest announced from time to time by Fleet at its hea