

IONICS INC  
Form DEFM14A  
January 27, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES**

**EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

IONICS, INCORPORATED

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, \$1.00 par value per share, of Ionics, Incorporated

(2) Aggregate number of securities to which transaction applies:

27,128,983, which includes 22,802,757 shares of Common Stock and options to purchase 4,326,226 shares of Common Stock.

(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):

The filing fee was determined based upon the sum of (a) 22,802,757 shares of Common Stock multiplied by \$44.00 per share and (b) in-the-money options to purchase 4,294,226 shares of Common Stock multiplied by \$18.75 per share (which is the difference

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between \$44.00 and the weighted average exercise price per share of the in-the-money options). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying \$0.0001177 by the sum of the preceding sentence.

(4) Proposed maximum aggregate value of transaction:

\$1,083,838,045.50

(5) Total fee paid:

\$127,567.74

b 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:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**IONICS, INCORPORATED**

**65 Grove Street  
Watertown, Massachusetts 02472-2882**

January 27, 2005

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of Ionics, Incorporated. The meeting is scheduled for February 22, 2005 at 1:00 P.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 Merger Agreement that we entered into on November 24, 2004 with General Electric Company and Triton Acquisition Corp., an indirect wholly-owned subsidiary of GE. As a result of the Merger, Ionics will become an indirect wholly-owned subsidiary of GE. At the meeting you will also be asked to grant the persons named as proxies discretionary authority to vote to adjourn the Special Meeting, if necessary, to satisfy the conditions to completing the Merger as set forth in the Merger Agreement, including for the purpose of soliciting proxies to vote in favor of approving the Merger Agreement.

If the Merger is completed, you will be entitled to receive \$44.00 in cash, without interest, for each share of Ionics common stock that you own and you will have no ongoing ownership interest in the continuing business of Ionics. We cannot complete the Merger unless all of the conditions to closing are satisfied or waived, including the approval of the Merger Agreement by holders of at least two-thirds of the outstanding shares of Ionics common stock.

Our board of directors carefully reviewed and considered the terms and conditions of the proposed Merger. Based on its review, the board of directors has determined that the terms of the Merger Agreement and the Merger are advisable and are in the best interests of Ionics and its stockholders.

**IONICS' BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE THE MERGER AGREEMENT.**

The notice of Special Meeting of stockholders 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 and urge you to vote **FOR** the approval of the Merger Agreement.

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**

**To Be Held On February 22, 2005**

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 February 22, 2005 at 1:00 P.M., EST, to consider and act upon proposals:

1. To approve the Agreement and Plan of Merger, dated as of November 24, 2004, among General Electric Company ( GE ), Triton Acquisition Corp., an indirect wholly-owned subsidiary of GE ( Merger Sub ), and Ionics;
2. To grant the persons named as proxies discretionary authority to vote to adjourn the Special Meeting, if necessary, to satisfy the conditions to completing the Merger as set forth in the Merger Agreement, including for the purpose of soliciting proxies to vote in favor of approving the Merger Agreement; and
3. 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 of Ionics has determined that the Merger is in the best interests of Ionics and its stockholders and recommends that you vote to approve the Merger Agreement. This item of business to be submitted to a vote of the stockholders at the Special Meeting is more fully described in the attached Proxy Statement, which we urge you to read carefully. The board of directors of Ionics also recommends that you expressly grant the authority to vote your shares to adjourn the Special Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the Merger Agreement. We are not aware of any other business to come before the Special Meeting.

Stockholders of record on January 3, 2005 are entitled to notice of and to vote at the Special Meeting and any adjournment or postponement of the meeting. All stockholders are cordially invited to attend the Special Meeting in person. Approval of the Merger Agreement will require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Ionics common stock.

Ionics has concluded that you are entitled to appraisal rights under the Massachusetts Business Corporation Act, provided that you strictly comply with the procedures in that Act as described further in the accompanying Proxy Statement.

You should not send any certificates representing shares of Ionics common stock with your proxy card. Upon closing of the Merger, you will be sent instructions regarding the procedure to exchange your stock certificates for the cash merger consideration.

Even if you plan to attend the Special Meeting in person, we request that you complete, sign, date and return the enclosed proxy card, as instructed in these materials, to ensure that your shares will be represented at the Special Meeting if you are unable to attend. If you sign, date and mail your proxy card

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without indicating how you wish to vote, your shares will be voted in favor of approval of the Merger Agreement. If you fail to return your proxy card, your shares will not be counted for purposes of determining whether a quorum is present at the Special Meeting and will have the same effect as a vote against approval of the Merger Agreement. If you do attend the Special Meeting and wish to vote in person, you may withdraw your proxy and vote in person. If your shares are held in the name of your broker, bank or other nominee, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Special Meeting.

No person has been authorized to give any information or to make any representations other than those set forth in the Proxy Statement in connection with the solicitation of proxies made hereby, and, if given or made, such information must not be relied upon as having been authorized by Ionics or any other person.

By Order of the Board of Directors

STEPHEN KORN, *Secretary*  
Ionics, Incorporated  
65 Grove Street  
Watertown, Massachusetts 02472-2882

January 27, 2005

**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

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### PROXY STATEMENT

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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 (Ionics) for use at the Special Meeting of Stockholders to be held on February 22, 2005 (the Special Meeting) at 1:00 P.M., EST, at Ionics' principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882, and any adjournments or postponements 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 January 27, 2005.

At the Special Meeting, Ionics' stockholders will be asked to consider and vote on proposals:

1. To approve the Agreement and Plan of Merger, dated as of November 24, 2004, among General Electric Company (GE), Triton Acquisition Corp., an indirect wholly-owned subsidiary of GE (Merger Sub), and Ionics;

2. To grant the persons named as proxies discretionary authority to vote to adjourn the Special Meeting, if necessary, to satisfy the conditions to completing the Merger as set forth in the Merger Agreement, including for the purpose of soliciting proxies to vote in favor of approval of the Merger Agreement; and

3. To consider and act upon such other matters as may properly come before the meeting.

Ionics' board of directors unanimously recommends 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 January 27, 2005.

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**SUMMARY RELATING TO THE MERGER**

This summary highlights selected information contained in this Proxy Statement related to the Merger and may not contain all of the information that is important to you. To understand the Merger fully and for a more complete description of the terms of the Agreement and Plan of Merger, dated as of November 24, 2004 (the Merger Agreement), among General Electric Company (GE), Triton Acquisition Corp. (Merger Sub) and Ionics, Incorporated (Ionics), you should carefully read this entire document, including the annexes, and the other documents to which Ionics refers you.

**The Companies Involved in the Merger**

**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. Ionics common stock is listed on the New York Stock Exchange under the symbol ION. Ionics is incorporated under the laws of the Commonwealth of Massachusetts. Information contained on Ionics website does not constitute a part of this Proxy Statement.

**General Electric Company**

3135 Easton Turnpike  
Fairfield, CT 06828-0001  
(203) 373-2211

GE is one of the world's largest and most diversified industrial corporations. GE's common stock is listed on the New York Stock Exchange under the symbol GE. GE is incorporated under the laws of the State of New York.

**Triton Acquisition Corp.**

3135 Easton Turnpike  
Fairfield, CT 06828-0001  
(203) 373-2211

Merger Sub is an indirect wholly-owned subsidiary of GE and has not engaged in any business activity other than in connection with the Merger.

**The Merger**

**The Merger**

Pursuant to the Merger Agreement, Merger Sub will merge with and into Ionics, with Ionics being the surviving corporation (the Merger). After the Merger, GE will own, indirectly, all of Ionics' outstanding stock. Ionics stockholders will receive cash in the Merger in exchange for their Ionics common stock. A copy of the Merger Agreement is attached as Annex A to this Proxy Statement. Ionics encourages you to read the Merger Agreement carefully and fully as it is the definitive agreement that governs the Merger.



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### **Merger Consideration (See page 42)**

If the Merger is completed, stockholders who do not exercise appraisal rights will receive \$44.00 in cash, without interest and subject to any applicable withholding taxes, in exchange for each share of Ionics common stock owned by such stockholder. After the Merger is completed, each stockholder will have the right to receive the merger consideration, but will no longer have any rights as an Ionics stockholder.

### **Treatment of Stock Options (See page 43)**

Holders of Ionics stock options will be entitled to receive, for each stock option, an amount in cash equal to the excess, if any, of \$44.00 over the exercise price of such stock option multiplied by the number of shares subject to such stock option, without interest and subject to any applicable withholding taxes, whether or not then vested or exercisable.

### **Market Price (See page 59)**

Ionics common stock is listed on the New York Stock Exchange under the ticker symbol ION. On November 23, 2004, the last full trading day prior to the public announcement of the proposed Merger, Ionics common stock closed at \$29.75 per share. On January 26, 2005, the last trading day prior to the date of this Proxy Statement, Ionics common stock closed at \$43.71 per share. Ionics stock price can fluctuate broadly even over short periods of time. It is impossible to predict the actual price of Ionics stock immediately prior to the effective time of the Merger.

### **Reasons for the Proposed Merger (See page 20)**

In the course of reaching its decision to adopt and approve the Merger and the Merger Agreement and to recommend that Ionics stockholders approve the Merger Agreement, Ionics board of directors considered a number of factors in its deliberations. Those factors are described below in this Proxy Statement.

### **Opinions of Ionics Financial Advisors (See page 22)**

Goldman Sachs and UBS have rendered their opinions to the Ionics board of directors that, as of November 24, 2004, and based upon and subject to the factors, assumptions, limitations and qualifications set forth therein, the \$44.00 in cash per share of Ionics common stock to be received by holders of shares of Ionics common stock pursuant to the Merger Agreement was fair, from a financial point of view, to such holders.

The full text of the opinions of Goldman Sachs and UBS, each dated November 24, 2004, which set forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinions, are attached as Annexes B-1 and B-2 to this Proxy Statement. Ionics stockholders should read the opinions in their entirety. Goldman Sachs and UBS provided their opinions for the information and assistance of Ionics board of directors in connection with its consideration of the Merger. The Goldman Sachs and UBS opinions are not recommendations as to how any holder of shares of Ionics common stock should vote with respect to the Merger.

Pursuant to the terms of Ionics engagement letters with Goldman Sachs and UBS, Ionics has agreed to pay each of them a transaction fee of approximately \$4,733,000, based on the number of shares of Ionics common stock and options to purchase shares of Ionics common stock outstanding on the record date. All of the fees payable to Goldman Sachs and UBS are contingent and payable only if the Merger is completed.

### **Recommendation of the Ionics Board of Directors (See page 22)**

The Ionics board of directors has unanimously determined that the Merger is advisable and in the best interests of Ionics and its stockholders and unanimously recommends that Ionics stockholders vote **FOR** the approval of the Merger Agreement.



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### **Vote Required (See page 16)**

The affirmative vote of the holders of at least two-thirds of the outstanding shares of Ionics common stock is required to approve the Merger Agreement. The Merger is not contingent upon the approval at the Special Meeting of any other proposal presented to Ionics stockholders.

With the consent of Ionics board of directors, which was required pursuant to the Stockholders Agreement dated as of February 13, 2004 among Ionics and the former equity holders (the Ecolochem Holders) of Ecolochem, Inc. and its affiliated entities (the Ecolochem Group), certain trust entities established by and/or for the benefit of the Ecolochem Holders, which collectively hold approximately 19.2% of the outstanding shares of Ionics common stock, have entered into a Voting Agreement with GE whereby, among other things, the Ecolochem Holders agreed to vote their shares of Ionics common stock:

in favor of approval of the Merger Agreement and the Merger;

against any action or agreement that would result in a breach of any representation, warranty, covenant, agreement or other obligation of Ionics under the Merger Agreement;

against any Takeover Proposal (as defined therein); and

against any agreement, amendment of Ionics articles of organization or bylaws or other action that is intended or could reasonably be expected to prevent, impede, interfere with, delay, postpone or discourage the consummation of the Merger.

To secure the performance of the Ecolochem Holders of the above agreements, the Ecolochem Holders also appointed GE and its designees as their proxy and attorney-in-fact to vote the shares of Ionics common stock held by them as set forth above. A copy of the Voting Agreement is attached as Annex C to this Proxy Statement.

### **Proxies, Voting and Revocation (See page 16)**

Shares of Ionics common stock represented at the Special Meeting by properly executed proxies received prior to or at the Special Meeting, and not revoked, will be voted at the Special Meeting, and at any adjournments or postponements of that meeting, in accordance with the instructions on the proxies. If a proxy is duly executed and submitted without instructions, the shares of Ionics common stock represented by that proxy will be voted **FOR** the approval of the Merger Agreement and, if necessary, **FOR** the approval of one or more adjournments of the Special Meeting to solicit additional proxies.

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 Secretary 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 Secretary 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.

### **Interests of Certain Persons in the Merger (See page 33)**

In considering the recommendation of Ionics board of directors in favor of the Merger, you should be aware that there are provisions of the Merger Agreement, the Voting Agreement and other existing agreements that will result in certain benefits to Ionics directors and executive officers that are not available to stockholders generally. Ionics board of directors was aware of, and considered the interests of, its directors and executive officers and the potential conflicts arising from such interests in its deliberations of the merits of the Merger and in adopting and approving the Merger Agreement and the Merger. Other than the provisions of the Merger Agreement and the Voting Agreement described below, and the bonuses

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described below that were not contractually required, the arrangements described below were in existence before the discussions about the Merger began. Stockholders should take these benefits into account in deciding whether to vote for approval of the Merger Agreement.

*Stock Options.* Upon the completion of the Merger, all Ionics stock options will immediately vest and become exercisable. All outstanding stock options will be converted at the effective time into the right to receive a cash payment equal to the excess, if any, of \$44.00 over the exercise price of such stock option multiplied by the number of shares subject to such stock option. The following table sets forth the number of options held by Ionics executive officers and directors, the number of shares of Ionics common stock subject to options held by such persons that will vest as a result of the Merger and the estimated cash payment such persons will receive pursuant to the conversion of their options.

Name	Shares of Common Stock Subject to Outstanding Options	Shares of Common Stock Subject to Outstanding Options that Vest as a Result of the Merger	Weighted Average Exercise Price Per Share of All Options	Weighted Average Exercise Price Per Share of Options that Vest as a Result of the Merger	Realizable Value of Options that Vest as a Result of the Merger at the Closing of the Merger	Realizable Value of All Options at the Closing of the Merger
Douglas R. Brown	468,000	350,000	\$ 17.8418	\$ 18.1343	\$ 9,053,000.00	\$ 12,242,035.00
Lyman B. Dickerson	0	0	\$ 0	\$ 0	\$ 0	\$ 0
John Curtis	240,000	150,000	\$ 22.2229	\$ 22.3567	\$ 3,246,500.00	\$ 5,226,500.00
Edward J. Cichon	120,000	52,000	\$ 23.8325	\$ 22.1469	\$ 1,136,360.00	\$ 2,420,100.00
Stephen Korn	165,000	46,000	\$ 28.8898	\$ 22.0795	\$ 1,008,345.00	\$ 2,493,175.00
Daniel M. Kuzmak	125,000	103,000	\$ 24.3018	\$ 23.3305	\$ 2,128,955.00	\$ 2,462,275.00
Alan Crosby	68,200	33,800	\$ 25.8710	\$ 22.3908	\$ 730,390.00	\$ 1,236,400.00
Anthony DiPaola	41,000	31,400	\$ 23.1695	\$ 22.8942	\$ 662,722.00	\$ 854,050.00
Michael W. Routh	65,000	41,000	\$ 22.9390	\$ 22.6421	\$ 875,672.50	\$ 1,368,962.50
Stephen L. Brown	10,000	0	\$ 23.0540	\$ 0	\$ 0	\$ 209,460.00
Kathleen F. Feldstein	14,000	0	\$ 25.0832	\$ 0	\$ 0	\$ 264,835.00
William K. Reilly	10,000	0	\$ 23.0540	\$ 0	\$ 0	\$ 209,460.00
John J. Shields	14,500	0	\$ 25.1666	\$ 0	\$ 0	\$ 273,085.00
Frederick T. Stant III	2,000	0	\$ 25.1000	\$ 0	\$ 0	\$ 37,800.00
Robert H. Temkin	2,000	0	\$ 25.1000	\$ 0	\$ 0	\$ 37,800.00
Daniel I. C. Wang	14,000	0	\$ 25.0832	\$ 0	\$ 0	\$ 264,835.00
Mark S. Wrighton	15,000	0	\$ 25.2443	\$ 0	\$ 0	\$ 281,335.00
Allen Wyatt	15,000	0	\$ 25.2443	\$ 0	\$ 0	\$ 281,335.00

Note: The table does not include stock options with an exercise price exceeding \$44.00 per share of Ionics common stock.

*Stock Ownership.* Many of Ionics officers and directors also beneficially own shares of Ionics common stock. For a further description of these stock holdings, see Security Ownership of Certain Beneficial Owners and Management beginning on page 53.

*Severance Arrangements under Existing Employment Agreements.* Ionics has entered into employment agreements with each of Douglas R. Brown, John F. Curtis and Lyman B. Dickerson that provide for salary and other employment terms. Each agreement also provides that if, among other events, (i) the employee terminates his employment for good cause (as defined in each employment agreement) within 24 months of a change in control or (ii) Ionics terminates the employee's employment without cause (as defined in each employment agreement), then the employee shall receive a severance benefit equal to 18 months of his then-current base salary plus an amount equal to 1.5 times the employee's target bonus for the fiscal year in which such termination occurs, in addition to any benefits required to be paid by law and the customary post-termination benefits in accordance with Ionics retirement, insurance and other benefit plans and arrangements, including any earned but unpaid bonus. On November 23, 2004, the Ionics board of directors established target bonuses for the fiscal year ending December 31, 2005 for



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Messrs. Brown, Curtis and Dickerson of \$600,000, \$300,000 and \$250,000, respectively. The severance benefits payable to Messrs. Brown, Curtis and Dickerson under these employment agreements if their employment were terminated under such circumstances would be \$1,500,000, \$975,000 and \$750,000, respectively. As of the date of this Proxy Statement, GE has not indicated to Ionics on what basis the employment of Messrs. Brown, Curtis and Dickerson will be continued, or if it will be continued, after the completion of the Merger. As a result, Ionics is not aware of whether such severance benefits will be paid.

*Severance Arrangements under Existing Employee Retention Agreements.* Ionics has entered into employee retention agreements with each of the following executive officers: Edward Cichon, Alan Crosby, Anthony DiPaola, Stephen Korn and Daniel Kuzmak. Pursuant to each such retention agreement, if within 24 months of a change in control, a successor to Ionics terminates the employee other than for cause (as defined in each retention agreement) or the employee terminates his employment for good reason (as defined in each retention agreement), then the employee is entitled to: (i) the employee's full base salary and all other compensation due through the termination date; (ii) a lump sum severance payment equal to the sum of 200% of the average of the employee's base salary in effect on the termination date and the two preceding calendar years, plus 200% of the average of the aggregate cash bonuses paid to the employee in the last three calendar years; (iii) any legal fees and expenses incurred in connection with the termination; and (iv) for a 24 month period after termination, life, disability, dental and group health insurance benefits substantially similar to the benefits the employee was receiving immediately prior to the termination date, unless the employee otherwise receives equivalent benefits during this period. The lump sum severance payment payable to Messrs. Cichon, Crosby, DiPaola, Korn and Kuzmak under these employment agreements if their employment were terminated under such circumstances would be \$661,666, \$681,666, \$525,133, \$825,700 and \$738,667, respectively. As of the date of this Proxy Statement, GE has not indicated to Ionics on what basis the employment of Messrs. Cichon, Crosby, DiPaola, Korn and Kuzmak will be continued, or if it will be continued, after the completion of the Merger. As a result, Ionics is not aware of whether such severance payments will be made.

*Executive Bonus Payments.* On November 23, 2004, the Ionics board of directors approved the payment of an aggregate of \$870,000 in cash bonuses to 11 management employees with respect to the fiscal year ended December 31, 2004. These bonuses, which were paid during December 2004, included bonuses of \$100,000 to each of Messrs. Brown, Curtis and Kuzmak and bonuses of \$75,000 to each of Messrs. Cichon and Korn. These bonuses were in addition to the contractually required cash bonuses of \$400,000 and \$150,000 to Messrs. Brown and Curtis, respectively, which were also paid during December 2004.

In addition, the Ionics board of directors approved the payment of an aggregate of up to another \$630,000 in cash bonuses to Ionics employees (other than Messrs. Brown and Dickerson) with respect to the fiscal year ended December 31, 2004. These bonuses will be paid to employees (which may include certain executive officers), in the amounts and at the times determined by Ionics' Chief Executive Officer. To date, Mr. Korn is the only named executive officer to receive such a bonus, which was for \$25,000.

*Indemnification of Directors and Executive Officers and Insurance.* The Merger Agreement provides that GE will cause Ionics, as the surviving corporation in the Merger, to indemnify Ionics' directors and officers with respect to actions or omissions by them as such at any time prior to the Closing Date to the fullest extent permitted by Ionics' certificate of incorporation or bylaws, any applicable contract and applicable law; provided that such persons shall not be indemnified for any criminal conduct, fraud or breach of the Merger Agreement. The Merger Agreement further provides that, after the Merger, GE will, or will cause Ionics as the surviving corporation to, provide, for a period not less than six years, directors' and officers' liability insurance covering those persons who were, as of the date of the Merger Agreement, covered by Ionics' directors' and officers' liability insurance policy, on terms no less favorable than those in effect on the date of the Merger Agreement, subject to certain limits based on the cost of providing such insurance.

*Ecolochem Escrow Agreement.* In connection with Ionics' acquisition of the Ecolochem Group on February 13, 2004, the Ecolochem Holders agreed to indemnify Ionics for losses arising from certain

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breaches of representations, warranties, covenants and agreements made by them in the definitive acquisition agreement. To secure a portion of the Ecolochem Holders' indemnification obligations, \$20,000,000 in cash and 490,566 shares of Ionics common stock (which constitutes only a portion of the cash and shares received by the Ecolochem Holders in the acquisition) were escrowed pursuant to the Escrow Agreement dated as of February 13, 2004 by and among Ionics and the Ecolochem Holders (the "Ecolochem Escrow Agreement"). Subject to certain limitations, on February 13, 2005, the escrow agent is required to distribute to the Ecolochem Holders any amounts held in escrow in excess of 50% of the escrowed cash and shares of Ionics common stock, less the amount of any pending claims for indemnification. Subject to certain limitations, on February 13, 2006, the escrow agent is required to distribute to the Ecolochem Holders any remaining amounts held in escrow, less the amount of any pending claims for indemnification. As of January 26, 2005, no claims for indemnification were pending.

As consideration for the Ecolochem Holders' agreement to enter into the Voting Agreement and to vote their shares of Ionics common stock in favor of the Merger Agreement, GE agreed that, after the completion of the Merger, any remaining amounts then held in escrow (less the amount of any pending claims for indemnification) will be distributed to the Ecolochem Holders. While the Ecolochem Holders will still be liable for indemnification claims, the escrowed amounts will be distributed to them earlier than contemplated by the Ecolochem Escrow Agreement. Lyman Dickerson, a director and executive officer of Ionics, and persons related to him beneficially own all of the cash and shares of Ionics common stock held in escrow and may be deemed to benefit from shortening the deadline for recovery of indemnification claims from the escrowed amounts and the resulting release of the cash and Ionics common stock from escrow.

### **Appraisal Rights (See page 36)**

Ionics has concluded that Ionics stockholders are entitled under Massachusetts law to appraisal rights in connection with the Merger. To exercise appraisal rights, an Ionics stockholder must:

Before the vote on the proposal to approve the Merger Agreement is taken, deliver to Ionics written notice of such stockholder's intent to demand payment for his or her shares of common stock;

**NOT** vote in favor of the proposal to approve the Merger Agreement; and

Comply with other procedures as are required by Part 13 of the Massachusetts Business Corporations Act.

A copy of the relevant sections of Part 13 of the Massachusetts Business Corporations Act is attached to this Proxy Statement as Annex D.

### **U.S. Federal Income Tax Treatment (See page 38)**

The Merger will be taxable for U.S. federal income tax purposes. Generally, this means that you will recognize taxable gain or loss equal to the difference between the cash you receive in the Merger and your adjusted tax basis in your shares. ***Tax matters can be complicated and the tax consequences of the Merger to you will depend on the facts of your own situation. You should consult your own tax advisor to understand fully the tax consequences of the Merger to you.***

### **Conditions to Closing (See page 49)**

The obligations of both GE and Ionics to complete the Merger are subject to the satisfaction or waiver of certain specified conditions.

### **No-Shop Provisions (See page 47)**

Ionics has agreed not to solicit, initiate or knowingly facilitate or encourage a business combination or other similar transaction with another party while the Merger is pending, and not to enter into discussions

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or negotiations with another party regarding a business combination or similar transaction while the Merger is pending, except under certain specified circumstances set forth in the Merger Agreement.

**Termination (See page 50)**

GE and Ionics may terminate the Merger Agreement and abandon the Merger under certain specified circumstances.

**Fees (See page 51)**

The Merger Agreement requires Ionics to pay GE a termination fee in the amount of \$33,000,000 if the Merger Agreement is terminated under certain specified circumstances.

**Federal or State Regulatory Filings Required in Connection with the Merger (See page 39)**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ), the Merger may not be completed until notifications have been given and certain information and materials have been furnished to 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 GE filed the required notification and report forms under the HSR Act with the Department of Justice and the Federal Trade Commission on December 20, 2004 and December 22, 2004, respectively, and the required waiting period expired on January 21, 2005.

The Merger is also subject to review by regulatory authorities in certain foreign jurisdictions. Both GE and Ionics have made (or will make) additional filings as required by these foreign regulatory authorities. GE and Ionics have agreed to use their reasonable best efforts to obtain regulatory clearance and, in connection therewith, to vigorously defend any challenge by regulatory authorities to the completion of the Merger.

**The Special Meeting of Ionics Stockholders (See page 16)**

The Special Meeting will be held to consider and vote upon the proposal to approve the Merger Agreement and the proposal to grant the persons named as proxies discretionary authority to adjourn the Special Meeting, if necessary, to satisfy the conditions to completing the Merger, including for the purpose of soliciting proxies to vote in favor of approval of the Merger Agreement, at Ionics offices at 65 Grove Street, Watertown, Massachusetts 02472-2882, at 1:00 p.m., EST, on Tuesday, February 22, 2005.

You are entitled to vote at the Special Meeting if you owned shares of Ionics common stock on January 3, 2005, the Record Date for the Special Meeting. You will have one vote at the Special Meeting for each share of Ionics common stock you owned on the Record Date. There are 22,974,248 shares of Ionics common stock entitled to be voted at the Special Meeting.

To vote, you can either (1) complete, sign, date and return the enclosed proxy card or (2) attend the Special Meeting and vote in person. If your shares are held in street name by your broker, bank or other nominee, you should instruct your broker to vote your shares by following the instructions provided by your broker. Your broker will not vote your shares without instruction from you. Remember, if you fail to instruct your broker to vote your shares, it has the same effect as a vote against the approval of the Merger Agreement.

The approval of the Merger Agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Ionics common stock on the Record Date. The proposal to grant the persons named as proxies the discretionary authority to vote to adjourn the Special Meeting, if necessary, to satisfy the conditions to completing the Merger, including for the purpose of soliciting proxies to vote in favor of approval of the Merger Agreement, requires the approval of the holders of a majority of the shares of Ionics common stock present, in person or by proxy, and entitled to vote at the Special Meeting.

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**Exchange of Certificates (See page 42)**

Promptly after the effective time of the Merger, Ionics stockholders will be mailed a letter of transmittal and instructions specifying the procedures to be followed to surrender your shares of Ionics common stock in exchange for the merger consideration. Ionics stockholders should not submit their stock certificates for exchange until they receive the letter of transmittal and instructions. When Ionics stockholders surrender their stock certificates along with the properly executed letter of transmittal, they will receive the merger consideration.

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**QUESTIONS AND ANSWERS**

**Q: When and where will the Special Meeting be held?**

A: The Special Meeting will be held on February 22, 2005 at 1:00 P.M., EST, at Ionics principal offices, 65 Grove Street, Watertown, Massachusetts 02472-2882.

**Q: What do I need to do now? (See page 16)**

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 8078, Edison, NJ 08818-9350 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: What happens if I do not return a proxy card? (See page 17)**

A: The failure to return your proxy card, an abstention from voting or a broker non-vote will have the same effect as a vote against the proposal to approve the Merger Agreement.

**Q: May I vote in person? (See page 16)**

A: Yes. You may vote in person at the meeting, rather than signing and returning your proxy card, if you own shares in your own name. However, Ionics encourages you to return your signed proxy card to ensure that your shares are voted. You may also vote in person at the Special Meeting if your shares are held in street name through a broker or bank provided that you bring a legal proxy from your broker or bank and present it at the Special Meeting. You may also be asked to present photo identification for admittance.

**Q: Can I change my vote after I have voted by proxy? (See page 16)**

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 Secretary 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 Secretary 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.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me? (See page 16)**

A: Your broker will not vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedure provided by your broker. Without instructions, your shares will not be voted, which will have the same effect as voting against approval of the Merger Agreement.

**Q: What vote of the stockholders is required to approve the Merger Agreement? (See page 16)**

A: To approve the Merger Agreement, stockholders of record as of January 3, 2005 holding at least two-thirds of the outstanding shares of Ionics common stock must vote FOR the approval of the Merger Agreement. There are 22,974,248 shares of Ionics common stock entitled to be voted at the Special Meeting. Stockholders holding approximately 19.2% of the outstanding shares of Ionics common stock have entered into a Voting Agreement with GE whereby, among other things, such stockholders agreed to vote their shares of Ionics common stock held by them in favor of the Merger Agreement and appointed GE and its designees as their proxy and attorney-in-fact to vote the shares of Ionics common stock held by them in favor of the Merger Agreement.



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**Q: Does Ionics board of directors recommend approval of the Merger Agreement? (See page 22)**

A: Yes. Ionics board of directors unanimously recommends that its stockholders approve the Merger Agreement. Ionics board of directors considered many factors in deciding to recommend the approval of the Merger Agreement. These factors are described below in this Proxy Statement.

**Q: Is the Merger contingent upon approval at the Special Meeting of any of the proposals to be voted upon at the Special Meeting other than the proposal to approve the Merger Agreement?**

A: No.

**Q: What will happen to Ionics as a result of the Merger?**

A: If the Merger is completed, Ionics will become an indirect wholly-owned subsidiary of GE.

**Q: What will happen to my shares of Ionics common stock after the Merger? (See page 42)**

A: Upon completion of the Merger, each outstanding share of Ionics common stock will automatically be canceled and will be converted into the right to receive \$44.00 in cash, without interest, subject to any applicable withholding taxes.

**Q: Will I own any shares of Ionics common stock after the Merger or will I receive any shares of GE common stock as a result of the Merger? (See page 42)**

A: No. You will be paid cash for your shares of Ionics common stock. Ionics stockholders will not have the option to receive GE common stock in exchange for their shares instead of cash.

**Q: What happens to Ionics stock options in the Merger? (See page 43)**

A: Holders of Ionics stock options will be entitled to receive a cash payment equal to the excess, if any, of \$44.00 over the exercise price of such stock option multiplied by the number of shares of common stock subject to such stock option, without interest and subject to any applicable withholding taxes, whether or not then vested or exercisable. GE will not assume any Ionics stock options as a result of the Merger.

**Q: What happens if I sell my shares before the Special Meeting?**

A: The record date for the Special Meeting is earlier than the expected completion date of the Merger. If you held your shares of Ionics common stock on the record date but have transferred those shares after the record date and before the Merger, you may retain your right to vote at the Special Meeting but not the right to receive the merger consideration. This right to receive the merger consideration will pass to the person to whom you transferred your shares of Ionics common stock.

**Q: Will the Merger be taxable to me?**

A: Generally, yes. For U.S. federal income tax purposes, generally you will recognize a taxable gain or loss as a result of the Merger measured by the difference, if any, between \$44.00 per share and your adjusted tax basis in that share. This gain or loss will be long-term capital gain or loss if you have held your Ionics shares for more than one year prior to the effective time of the Merger. You should read *The Merger U.S. Federal Income Tax Treatment* beginning on page 38 for a more complete discussion of the federal income tax consequences of the Merger.

**Q: Am I entitled to dissenter s or appraisal rights? (See page 36)**

A: Yes, Ionics has concluded that you are entitled under Massachusetts law to appraisal rights in connection with the Merger. To exercise appraisal rights, you must:

Before the vote on the proposal to approve the Merger Agreement is taken, deliver to Ionics written notice of your intent to demand payment for your shares of common stock;

**NOT** vote in favor of the proposal to approve the Merger Agreement; and

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Comply with other procedures as are required by Part 13 of the Massachusetts Business Corporations Act.

A copy of the relevant sections of Part 13 of the Massachusetts Business Corporations Act is attached to this Proxy Statement as Annex D.

**Q: Should I send in my stock certificates now? (See page 42)**

A: No. After the Merger is completed, you will receive written instructions for exchanging your shares of Ionics common stock for the merger consideration of \$44.00 in cash, without interest and subject to any applicable withholding taxes, for each share of Ionics common stock.

**Q: When do you expect the Merger to be completed?**

A: Ionics is working toward completing the Merger as quickly as possible. In addition to obtaining stockholder approval, Ionics must obtain applicable regulatory approvals and satisfy all other closing conditions. However, Ionics cannot assure you that all conditions to the Merger will be satisfied or, if satisfied, the date by which they will be satisfied.

**Q: When will I receive the cash consideration for my shares of Ionics common stock? (See page 42)**

A: After the Merger is completed, you will receive written instructions, including a letter of transmittal, that explain how to exchange your shares for the cash consideration paid in the Merger. When you properly return and complete the required documentation described in the written instructions, you will promptly receive from the paying agent a payment of the cash consideration for your shares.

**Q: Whom should I contact if I have additional questions?**

A: For more information, you should contact Stephen Korn, Secretary, Ionics, Incorporated, 65 Grove Street, Watertown, Massachusetts 02472-2882, (617) 926-2500 or Georgeson Shareholder toll free at (877) 868-5008.

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**FORWARD-LOOKING STATEMENTS**

Certain statements and assumptions contained, or incorporated by reference, in this Proxy Statement relating to the closing of the Merger and other future events constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that could cause actual results to differ materially, including risks relating to receiving the approval of a majority of Ionics' outstanding shares, receiving required regulatory approvals, satisfying other conditions to the closing of the Merger and other matters.

Any statements contained in this Proxy Statement, including statements to the effect that Ionics or its management believes, expects, anticipates, plans, may, will, projects, continues, or estimates or statements concerning potential or opportunity or other variations of comparable terminology or the negative thereof, that are not statements of historical fact should be considered forward-looking statements. For a detailed discussion of these and other risk factors, please refer to Ionics' filings with the SEC on Forms 10-K, 10-Q and 8-K. You can obtain copies of Ionics' Forms 10-K, 10-Q and 8-K and other filings for free at the Investors section of Ionics' website at [www.ionics.com](http://www.ionics.com) and at the SEC website at [www.sec.gov](http://www.sec.gov) or for a fee from commercial document retrieval services.

Ionics undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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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 January 3, 2005 (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 22,974,248 shares of common stock. 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 Secretary 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. Shares of Ionics common stock represented at the Special Meeting but not voted, including shares of Ionics common stock for which proxies have been received but for which stockholders have abstained, will be treated as present at the Special Meeting for purposes of determining the presence or absence of a quorum for the transaction of all business.

Ionics stockholders are requested to complete, date and sign the enclosed proxy card and promptly return it in the accompanying postage-paid 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 Secretary 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 Secretary 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 the Merger Agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Ionics common stock on the Record Date. 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**

Only shares affirmatively voted for the approval of the Merger Agreement, including properly executed proxies that do not contain voting instructions, will be counted as voting for that proposal. If you abstain from voting, it will have the same effect as a vote against the approval of the Merger Agreement and as a vote against the proposal to grant authority to vote to adjourn the Special Meeting. If you do not execute a proxy card, it will have the same effect as a vote against the approval of the Merger Agreement and will have no effect on the proposal to grant authority to vote to adjourn the Special Meeting. Brokers who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, brokers are precluded from exercising their voting discretion with respect to approval of non-routine matters, such as the approval of the Merger Agreement and, as a result, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote those shares, referred to generally as broker non-votes. Broker non-votes will be treated as shares that are present and entitled to vote at the Special Meeting for purposes of determining whether a quorum exists and will have the same effect as votes against the approval of the Merger Agreement. Broker non-votes will have no effect on the proposal to grant the persons named as proxies the authority to vote to adjourn the Special Meeting.

### **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 proposal to approve the Merger Agreement or to permit the dissemination of information regarding material developments relating to the proposal to approve the Merger Agreement 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, in person or by proxy, and voting at the Special Meeting although less than a quorum, is required to approve such adjournment.

### **Solicitation of Proxies**

The cost of solicitation of proxies will be borne by Ionics. In addition to soliciting stockholders by mail, certain of Ionics directors, officers and employees, without additional remuneration, may solicit proxies in person or by telephone or other means of electronic communication. Ionics will not pay these individuals for their solicitation activity but will reimburse them for their reasonable out-of-pocket expenses. Brokers and other custodians, nominees and fiduciaries will be requested to forward proxy-soliciting material to the owners of stock held in their names, and Ionics will reimburse such brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by directors, officers and employees of Ionics may also be made of some stockholders in person or by mail, telephone or other means of electronic communication following the original solicitation. Ionics has retained an independent proxy solicitation firm, Georgeson Shareholder Communications, Inc. (Georgeson Shareholder), to assist in soliciting proxies. Ionics has agreed to pay Georgeson Shareholder fees for proxy solicitation services in the amount of \$15,000 in fixed fees plus additional fees based on the

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number of soliciting calls made to Ionics stockholders and the number of votes received as a result of such calls, plus its expenses incurred in performing such services.

### **Appraisal Rights**

Ionics has concluded that Ionics stockholders are entitled under Massachusetts law to appraisal rights in connection with the Merger. To exercise appraisal rights, Ionics stockholders must:

Before the vote on the proposal to approve the Merger Agreement is taken, deliver to Ionics written notice of such stockholder's intent to demand payment for his or her shares of common stock;

**NOT** vote in favor of the proposal to approve the Merger Agreement; and

Comply with other procedures as are required by Part 13 of the Massachusetts Business Corporations Act.

A copy of the relevant sections of Part 13 of the Massachusetts Business Corporations Act is attached to this Proxy Statement as Annex D.

### **Delivery of this Proxy Statement to Multiple Stockholders with the Same Address**

The SEC has adopted rules that permit companies and intermediaries (for example, brokers) to satisfy the delivery requirements for proxy statements with respect to two or more stockholders sharing the same address if Ionics believes the stockholders are members of the same family by delivering a single proxy statement addressed to those stockholders. Each stockholder will continue to receive a separate proxy card or voting instruction card. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies by reducing the volume of duplicate information.

A number of brokers with account holders who are Ionics stockholders will be householding Ionics proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or Ionics that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If your household received a single proxy statement, but you would prefer to receive your own copy, please notify your broker and direct your written request to Ionics, Incorporated, Attention: Director, Investor Relations, 65 Grove Street, Watertown, Massachusetts 02472-2882, or contact Ionics Investor Relations Department at (617) 926-2500. If your household received multiple proxy statements, but you would like to receive one set of Ionics proxy materials in the future:

If your Ionics shares are registered in your own name, please contact Ionics transfer agent, EquiServe LP, by phone at (781) 575-3120, or by mail to 150 Royall Street, Canton, Massachusetts 02021; or

If a broker or other nominee holds your Ionics shares, please contact your broker and Ionics, Incorporated, Investor Relations and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

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**THE MERGER**

*This section describes material aspects of the Merger, including the Merger Agreement. While Ionics believes that the description covers the material terms of the Merger and the Merger 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 Merger and the Merger Agreement.*

Ionics stockholders are being asked to consider and act upon a proposal to approve the Merger Agreement. The Merger Agreement provides for the acquisition of all the outstanding shares of common stock of Ionics for \$44.00 in cash per share of common stock. The Merger will not be completed unless the Merger Agreement is approved.

**Background of the Proposed Merger**

On April 15, 2004, Douglas R. Brown (Ionics President and Chief Executive Officer) and Lyman B. Dickerson (Ionics Vice President, Water Systems Division) met with George R. Oliver (Vice President and General Manager of Water and Process Technologies, GE Infrastructure) to discuss potential business relationships between Ionics and GE.

On April 30, 2004, Messrs. Brown and Oliver met at Ionics. At this meeting, Mr. Brown presented information regarding Ionics business, operations, strategic plans and historical and projected financial performance.

On June 10, 2004, Mr. Brown and Theodore G. Papastavros (Ionics retired Executive Vice President who is serving as a consultant to Ionics) met at GE Water's offices in Minnesota with Mr. Oliver, Robert Jeffe (former Senior Vice President, Business Development of GE) and Phil Rolchigo (Technology Leader of GE Infrastructure). At this meeting, Ionics and GE presented information regarding their respective process technologies.

On June 18, 2004, Stephen Korn (Ionics Vice President and General Counsel) delivered to Scott Seeley (General Counsel of GE Infrastructure) a draft confidentiality agreement. Between June 18, 2004 and July 2, 2004, Mr. Korn and representatives of Testa, Hurwitz & Thibault, LLP (Ionics legal counsel) and Mr. Seeley and James R. Billingsley, Jr. (Senior Counsel Transactions of GE Infrastructure) negotiated a reciprocal confidentiality agreement. On July 2, 2004, Ionics and GE, acting through its GE Infrastructure business unit, entered into a reciprocal confidentiality agreement.

On July 7, 2004, Messrs. Brown and Papastavros met with William A. Woodburn (President and Chief Executive Officer of GE Infrastructure), and Mr. Oliver at Ionics. At this meeting, a range of business relationships were discussed ranging from cooperation on mobile demineralization to a merger.

On July 22, 2004, Messrs. Brown and Woodburn met in Cambridge, Massachusetts to discuss a possible business combination between Ionics and GE.

On August 22, 2004, Messrs. Dickerson and Oliver met in Virginia Beach, Virginia to discuss potential opportunities to work together in providing services.

On September 23, 2004, Mr. Brown met with Messrs. Woodburn and Oliver to discuss further a possible business combination between Ionics and GE, including the structure of a possible combination and the valuation of Ionics.

On October 7, 2004, Mr. Brown met with Messrs. Woodburn and Oliver at GE Infrastructure's offices in Wilton, Connecticut to discuss further a possible business combination between Ionics and GE, including the structure of a possible combination, the form of the consideration and the valuation of Ionics.

On October 27, 2004, Messrs. Brown and Woodburn met at Ionics to discuss further a potential business combination between GE and Ionics, including the structure of a possible combination, the form of the consideration and the valuation of Ionics.



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On November 1, 2004, Messrs. Brown and Dickerson met with Jeffrey Immelt (GE's Chairman and Chief Executive Officer) and Mr. Woodburn to discuss a possible business combination between Ionics and GE, including the strategic fit of the businesses, the potential synergies resulting from such a combination and the structure and valuation of a possible combination. Messrs. Brown, Dickerson, Woodburn and Derek Feng (General Manager - Business Development of GE Infrastructure) also met to discuss diligence requirements, transaction timing and the form of consideration.

From November 3, 2004 through November 23, 2004, representatives from GE and Weil, Gotshal & Manges LLP (GE's legal counsel) conducted due diligence reviews of Ionics. On November 4, 2004 at the offices of Testa, Hurwitz & Thibault, LLP in Boston, Massachusetts, Messrs. Brown, Dickerson, Papastavros and Korn, John F. Curtis (Ionics' Vice President, Strategy & Operations) and Daniel M. Kuzmak (Ionics' Vice President and Chief Financial Officer) made presentations to Messrs. Woodburn, Oliver, Feng, Seeley and other representatives from GE regarding Ionics' business, operations, strategic plans, historical and projected financial performance, and potential synergies realizable from a business combination. Also in attendance at that meeting were representatives from Goldman Sachs and UBS (Ionics' financial advisors) and Testa, Hurwitz & Thibault, LLP.

On November 11, 2004, Weil, Gotshal & Manges LLP delivered to Testa, Hurwitz & Thibault, LLP first drafts of the Merger Agreement and the Voting Agreement. From November 15, 2004 to November 24, 2004, representatives of Ionics and GE and their respective legal counsel negotiated the terms and conditions of the proposed business combination, including the Merger Agreement. These negotiations covered all aspects of the proposed transaction. The terms of the Merger Agreement, including the consideration to be paid in the Merger to Ionics stockholders, were the result of arm's-length negotiations between Ionics and GE. The consideration to be paid in the Merger to Ionics stockholders resulted from arm's-length negotiations principally between Mr. Brown and representatives of GE, principally Mr. Woodburn. In negotiating the consideration to be paid in the Merger, Mr. Brown considered the form of the consideration, the premium the proposed consideration represented to the then current market price for Ionics shares, the enterprise value of Ionics based on the proposed consideration as a multiple of various estimated operating statistics, and information regarding the valuation multiples paid in other transactions, among other things. Also, from November 22, 2004 to November 24, 2004, Mr. Dickerson and GE and their respective legal counsel negotiated the terms and conditions of the Voting Agreement. GE required a voting agreement from the Ecolochem Holders as a condition to entering into the Merger Agreement. As consideration for entering into the Voting Agreement, Mr. Dickerson and the other Ecolochem Holders principally sought to have all cash and Ionics common stock held in escrow to secure a portion of their indemnification obligations to Ionics released upon completion of the Merger. For a description of the Voting Agreement, see "Voting Agreement" beginning on page 52.

On November 24, 2004, Ionics and GE entered into the Merger Agreement. On November 24, 2004, GE, and the Ecolochem Holders entered into the Voting Agreement. Before the opening of the market on November 24, 2004, Ionics and GE jointly announced their entry into the Merger Agreement.

### **Reasons for the Merger**

The Ionics board of directors has unanimously determined that the Merger Agreement and the transactions contemplated thereby (including the Merger) are advisable and in the best interests of Ionics and its stockholders, has unanimously adopted and approved the Merger Agreement, and has unanimously approved the transactions contemplated thereby. The Ionics board of directors unanimously recommends that holders of Ionics common stock vote FOR the proposal to approve the Merger Agreement and the transactions contemplated thereby (including the Merger).

In evaluating, adopting and approving the Merger Agreement and the Merger and recommending that the holders of Ionics common stock vote to approve the Merger Agreement and the transactions contemplated thereby (including the Merger), the Ionics board of directors retained Goldman Sachs and



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UBS as financial advisors, consulted with Testa, Hurwitz & Thibault, LLP, and considered a number of factors, including the following:

The premium that the merger consideration of \$44.00 per share represented in comparison to the closing price per share of the Ionics common stock on November 22, 2004 (the last trading day prior to the date the Ionics board of directors acted on the matter) (\$30.21), and the average share price of the Ionics common stock for the previous four weeks (\$30.14), previous three months (\$27.91), previous six months (\$27.01), and previous twelve months (\$27.62);

That the merger consideration is all cash, which provides certainty of value to Ionics stockholders;

The likelihood that the Merger will be consummated, in light of the experience, reputation and financial capability of GE and the absence of any financing condition to GE's obligation to complete the Merger;

The business, financial, market and execution risks associated with remaining independent and successfully implementing Ionics business strategies;

The financial analyses of Goldman Sachs and UBS presented to the Ionics board of directors on November 23, 2004, and the opinions of Goldman Sachs and UBS delivered to the Ionics board of directors that, as of November 24, 2004, and based upon and subject to the various factors, assumptions, limitations and qualifications set forth in their respective opinions, the \$44.00 in cash per share of Ionics common stock to be received by holders of shares of Ionics common stock pursuant to the Merger Agreement was fair, from a financial point of view, to those holders (the full text of the opinions setting forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinions, are attached as Annexes B-1 and B-2 to this Proxy Statement);

The terms and conditions of the Merger Agreement, including:

The scope of the representations, warranties and covenants being made by Ionics;

The conditions to the consummation of the Merger, including the requirement that the Merger Agreement be approved by Ionics stockholders;

The ability of the Ionics board of directors, in the exercise of its fiduciary duties in accordance with the Merger Agreement, to provide information to, engage in negotiations with, change its recommendation to stockholders to approve the Merger Agreement and potentially enter into a transaction with another party in connection with any unsolicited, bona fide written proposal that the Ionics board of directors determines in good faith constitutes, or is reasonably likely to result in, a superior proposal in the manner provided in the Merger Agreement, subject to specified conditions, including if the Ionics board of directors accepts or recommends such a superior proposal, paying a \$33,000,000 termination fee to GE, which is approximately 3% of the total merger consideration;

The terms and conditions of the Voting Agreement (to which Ionics is not a party), including the support under the Voting Agreement for the adoption of the Merger Agreement by the holders of approximately 19.2% of the outstanding shares of Ionics common stock and the automatic termination of the Voting Agreement upon the termination of the Merger Agreement, which would be important if the Ionics board of directors terminated the Merger Agreement to accept a superior proposal as permitted under the Merger Agreement; and

The business reputation and the substantial, liquid financial resources of GE which the Ionics board of directors believes will provide Ionics business with significant resources to grow and execute its growth strategy more rapidly than as a stand-alone company and the potential to penetrate existing and new markets.

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The Ionics board of directors also considered a number of potentially countervailing factors in its deliberations concerning the Merger, including the following:

That Ionics will no longer exist as an independent company and its stockholders will no longer participate in Ionics' growth or from any future increase in the value of Ionics or from any synergies that may be created by the Merger;

That, under the terms of the Merger Agreement, Ionics cannot solicit other acquisition proposals and must pay or cause to be paid to GE a termination fee of \$33,000,000 in cash if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, including if the Ionics board of directors exercises its right to terminate the Merger Agreement and enter into an alternative superior transaction, which may deter others from proposing an alternative transaction that may be more advantageous to Ionics stockholders;

That gains from this all-cash transaction will be taxable to Ionics' stockholders for U.S. federal income tax purposes; and

That if the Merger does not close, Ionics' officers and other employees will have expended extensive efforts attempting to complete the transaction and will have experienced significant distractions from their work during the pendency of the transaction and Ionics will have incurred substantial transaction costs in connection with the transaction and such costs will negatively impact Ionics' operating results.

The Ionics board of directors considered all of the above in light of Ionics' historical and projected business, operations, assets, financial condition, operating results and cash flows and prospects.

The Ionics board of directors also considered the interests of its directors and executive officers in the transactions contemplated by the Merger Agreement and the Voting Agreement, which are described below under "The Merger - Interests of Certain Persons in the Merger."

The Ionics board of directors concluded that, on balance, the potential benefits to Ionics and its stockholders of the transactions contemplated by the Merger Agreement and the Voting Agreement outweighed the potential disadvantages and risks associated with those transactions. 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 evaluations, 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**

**The Ionics board of directors unanimously recommends that you vote FOR the proposal to approve the Merger Agreement. The Ionics board of directors has unanimously determined that the Merger is advisable and in the best interests of Ionics and its stockholders.**

## **Opinions of Ionics' Financial Advisors**

The Ionics board of directors selected both Goldman Sachs and UBS as its financial advisors because it believed that using the two firms would assist it in obtaining the highest value for Ionics stockholders. Both firms are internationally recognized investment banking firms that have substantial experience in transactions similar to the transaction contemplated by the Merger Agreement, have significant knowledge of and prior relationships with Ionics, and have significant knowledge of the industries in which Ionics conducts business. Both firms were engaged to act as Ionics' financial advisors at approximately the same time. Throughout the period of their engagements, both firms provided financial advice and assistance to Ionics in connection with the Merger, including assisting Ionics in analyzing the transaction; advising

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Ionics with respect to the negotiations with GE, Ionics' valuation and the terms and conditions of the transaction; and assisting in the diligence process, all of which Ionics believes helped it obtain the highest value for its stockholders. At the time of their engagements, the Ionics board of directors expected both firms to render their opinions as to the fairness, from a financial point of view, of the consideration to be paid in the Merger. At the meeting held on November 23, 2004, the Ionics board of directors requested that both firms provide their opinion as to the fairness, from a financial point of view, of the \$44.00 in cash per share of Ionics common stock to be received by holders of shares of Ionics common stock pursuant to the Merger Agreement. Obtaining opinions from both firms provided additional support for the determination by the Ionics board of directors as to the fairness of the consideration to be received by Ionics' stockholders in the Merger. Ionics benefited both from the combined expertise of the two firms, which collaborated in performing the financial analyses relating to their opinions, and the separate opinions rendered by the firms which demonstrated their independent conclusions, as further described herein, that the consideration to be received by Ionics' stockholders in the Merger was fair as of the date of such opinions.

At the time of the engagements of Goldman Sachs and UBS, the Ionics board of directors was informed that Goldman Sachs and UBS had provided investment banking and other services to GE and had advised other companies in connection with transactions with GE. The Ionics board of directors received assurances from each of Goldman Sachs and UBS that it had not been engaged by GE with respect to a potential transaction with Ionics. The Ionics board of directors did not consider the amount of fees for investment banking and other services paid by GE to either Goldman Sachs or UBS.

***Goldman Sachs***

Goldman Sachs rendered its opinion to Ionics' board of directors that, as of November 24, 2004 and based upon and subject to the factors and assumptions set forth in such opinion, the \$44.00 in cash per share of Ionics common stock to be received by the holders of shares of Ionics common stock pursuant to the Merger Agreement was fair from a financial point of view to such holders.

**The full text of the opinion of Goldman Sachs, dated November 24, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B-1 hereto and incorporated herein by reference. 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 transaction contemplated by the Merger Agreement. 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 Merger Agreement.**

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

the Merger Agreement;

annual reports to stockholders and Annual Reports on Form 10-K of Ionics for the five fiscal years ended December 31, 2003;

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

certain other communications from Ionics to its stockholders; and

certain internal financial analyses and forecasts for Ionics prepared by its management.

Goldman Sachs also held discussions with members of the senior management of Ionics regarding their assessment of the past and current business operations, financial condition and future prospects of Ionics. In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of Ionics common stock, compared certain financial and stock market information for Ionics with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the water technology industry specifically and in other

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industries generally and performed such other studies and analyses, and considered such other factors, as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, 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 the consent of Ionics' board of directors, that the internal financial forecasts prepared by the management of Ionics 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 contingent, derivative or off-balance-sheet assets and liabilities) of Ionics or any of its subsidiaries. No evaluation or appraisal of the assets or liabilities of Ionics or any of its subsidiaries was furnished to Goldman Sachs. Goldman Sachs was not requested to solicit, and did not solicit, interest from other parties with respect to an acquisition of or other business combination with Ionics. The opinion of Goldman Sachs did not address the underlying business decision of Ionics to engage in the transaction contemplated by the Merger Agreement. Except as described above, Ionics did not provide any instructions or impose any limitations on Goldman Sachs with respect to the investigations made or the procedures followed by Goldman Sachs in rendering its opinion.

Goldman Sachs and its affiliates, as part of their investment banking business, are 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, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to Ionics in connection with, and has participated in certain of the negotiations leading to, the transactions contemplated by the Merger Agreement.

Goldman Sachs also has provided certain investment banking and other services to Ionics and its affiliates from time to time, including having acted as financial advisor to Ionics in connection with its acquisition of Ecolocem, Inc. and its affiliates in February 2004. In 2003 and 2004, Ionics paid to Goldman Sachs an aggregate of \$3,500,000 in fees for investment banking services and reimbursed Goldman Sachs for any expenses it incurred.

Goldman Sachs has provided certain investment banking and other services to GE and its affiliates from time to time, including:

having acted as agent in connection with GE's medium term note program;

having acted as financial advisor to GE in connection with its acquisition of Kretztechnik AG in October 2001, its acquisition of Interlogix, Inc. in February 2002, its acquisition of Telemundo Communications Group, Inc. in April 2002, its acquisition of Bravo in December 2002, its acquisition of Instrumentarium Corporation in October 2003, its acquisition of Amersham plc in April 2004 and its acquisition of ChevronTexaco Worldwide Gasification Technology Inc. in June 2004;

having acted as joint lead manager of the initial public offering of common stock of Genworth Financial, Inc., a subsidiary of GE, and related financings in May 2004;

having acted as joint bookrunning manager of an offering of GE's common stock in May 2004;

having acted as financial advisor to GE Capital Corporation in connection with its acquisition of Mellon U.S. Leasing and Mellon Leasing-Manufacturer and Dealer Services in June 2001, its acquisition of Franchise Finance Corporation of America in August 2001 and its sale of Financial Guarantee Insurance Company in December 2003; and

having acted as underwriter in connection with a number of other financing transactions for GE and its affiliates.

As of the date of its opinion, Goldman Sachs also was providing and may provide investment banking services to GE and its affiliates in the future. GE and Goldman Sachs have informed Ionics that, in

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connection with the above-described services, GE has paid Goldman Sachs reasonable and customary compensation. In the future, GE may pay Goldman Sachs additional compensation for investment banking and other services.

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, risk management, hedging, financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman Sachs and its affiliates may actively trade the debt and equity securities (or related derivative securities) of Ionics, GE and their respective affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

Pursuant to a letter agreement dated September 29, 2004, Ionics engaged Goldman Sachs to act as its financial advisor in connection with the contemplated transaction. Pursuant to the terms of this engagement letter, Ionics has agreed to pay Goldman Sachs a transaction fee of \$3,250,000 plus 1.5% of the portion of the aggregate consideration (as defined in the letter agreement) paid in the transaction contemplated by the Merger Agreement that exceeds \$40.00 per share of Ionics common stock, payable upon the completion of such transaction. Based on the number of shares of Ionics common stock and options to purchase shares of Ionics common stock outstanding on the record date, the aggregate transaction fee would be approximately \$4,733,000. All of the fees payable to Goldman Sachs are contingent and payable only if the Merger is completed. 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.

***UBS***

UBS rendered its opinion to the Ionics board of directors that, as of November 24, 2004 and based upon and subject to the assumptions, limitations and qualifications set forth in such opinion, the \$44.00 in cash per share of Ionics common stock to be received by the holders of shares of Ionics common stock in the Merger was fair, from a financial point of view, to such holders.

**The full text of the opinion of UBS, dated November 24, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B-2 hereto and incorporated herein by reference. Ionics' stockholders should read the opinion in its entirety. UBS provided its opinion for the information and assistance of the Ionics board of directors in connection with its consideration of the transaction contemplated by the Merger Agreement. The UBS opinion is not a recommendation as to how any holder of shares of Ionics common stock should vote with respect to the Merger Agreement.**

In connection with rendering the opinion described above and performing its related financial analyses, UBS, among other things:

reviewed certain publicly available business and historical financial information and other data relating to Ionics;

reviewed current and historical market prices and trading volumes of the shares of Ionics common stock;

reviewed certain internal financial information and other data relating to the business and financial prospects of Ionics, including estimates and financial forecasts prepared by management of Ionics, that were provided to UBS by Ionics and were not publicly available;

conducted discussions with members of senior management of Ionics concerning the business and financial prospects of Ionics;

reviewed publicly available financial and stock market data with respect to certain other companies in lines of business UBS believed to be generally comparable to those of Ionics;

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compared the financial terms of the Merger with the publicly available financial terms of certain other transactions which UBS believed to be generally relevant;

reviewed the Merger Agreement; and

conducted such other financial studies, analyses and investigations, and considered such other information, as UBS deemed necessary or appropriate.

In connection with its review, with the consent of the Ionics board of directors, UBS did not assume any responsibility for independent verification of any of the information reviewed by UBS for the purpose of its opinion and relied on such information being complete and accurate in all material respects. In addition, at the direction of the Ionics board of directors, UBS did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Ionics, nor was it furnished with any such evaluation or appraisal. With respect to the financial forecasts and estimates referred to above, UBS assumed, at the direction of the Ionics board of directors, that they had been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Ionics as to the future performance of Ionics. UBS assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the transactions contemplated by the Merger Agreement would be obtained without any material adverse effect on Ionics or the Merger. UBS opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to UBS as of, November 24, 2004.

UBS opinion did not address the relative merits of the Merger as compared to other business strategies or transactions that might be available to Ionics or its underlying business decision to effect the Merger, nor did it constitute a recommendation to any shareholder as to how such shareholder should vote with respect to the Merger Agreement. UBS was neither asked to, nor did it, offer any opinion as to any terms of the Merger Agreement or related documents and the obligations thereunder, or the form of the Merger. In rendering its opinion, UBS assumed, with the consent of the Ionics board of directors, that each party to the Merger Agreement would comply with all the material terms of the Merger Agreement. UBS was not authorized to solicit, and did not solicit, indications of interest in a business combination with Ionics from any party. Except as described above, Ionics did not provide any instructions or impose any limitations on UBS with respect to the investigations made or the procedures followed by UBS in rendering its opinion.

UBS and its affiliates, as part of their investment banking and financial advisory business, are continuously 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, private placements and other transactions as well as for estate, corporate and other purposes.

Prior to November 24, 2004, UBS and its affiliates had provided the following investment banking services to Ionics:

as of November 24, 2004, UBS and its affiliates were lead arranger, administrative agent, collateral agent and swingline lender under Ionics credit facility, dated February 13, 2004; and

UBS entered into an interest rate swap transaction with Ionics in March 2004.

In 2003 and 2004, Ionics paid to UBS an aggregate of \$2,277,917 in fees for such investment banking services and reimbursed UBS for any expenses it incurred.

Prior to November 24, 2004, UBS and its predecessors and affiliates had provided investment banking services to GE. UBS and its predecessors and affiliates acted:

as joint and sole book-running manager, co-manager and agent for various securities offerings of GE and GE Capital Corporation, a subsidiary of GE, in the two years prior to November 24, 2004;

as senior co-manager for the initial public offering of common stock of Genworth Financial, Inc., a subsidiary of GE, in May 2004;

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as senior co-manager for the public offering of convertible notes of Genworth Financial, Inc. in May 2004;

as financial advisor to GE in connection with the sale of Garrett Aviation Services to the Carlyle Group in July 2004; and

as of November 24, 2004 provided extensions of credit to GE and its affiliates in connection with certain credit facilities.

GE and UBS have informed Ionics that, in connection with the above-described services, GE has paid UBS reasonable and customary compensation. In the future, GE may pay UBS additional compensation for investment banking and other services. In the ordinary course of business, UBS, its successors and affiliates have traded, and may in the future trade, securities of Ionics or GE and their respective affiliates for their own account and the accounts of their customers, and, accordingly, may at any time hold long or short positions in such securities.

Pursuant to a letter agreement dated September 24, 2004, Ionics engaged UBS to act as its financial advisor in connection with the contemplated transaction. Pursuant to the terms of this engagement letter, Ionics has agreed to pay UBS a transaction fee of \$3,250,000 plus 1.5% of the portion of the aggregate consideration (as defined in the letter agreement) paid in the transaction contemplated by the Merger Agreement that exceeds \$40.00 per share of Ionics common stock, payable upon the completion of such transaction. Based on the number of shares of Ionics common stock and options to purchase shares of Ionics common stock outstanding on the record date, the aggregate transaction fee would be approximately \$4,733,000. All of the fees payable to UBS are contingent and payable only if the Merger is completed. In addition, Ionics has agreed to reimburse UBS for its reasonable expenses, including attorneys' fees and disbursements, and to indemnify UBS and related persons against various liabilities, including certain liabilities under the federal securities laws.

***Financial Analyses used by Goldman Sachs and UBS***

The following is a summary of the material financial analyses used by Goldman Sachs and UBS in connection with rendering the opinions described above. Goldman Sachs and UBS collaborated in performing each of the financial analyses summarized below. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs and UBS. The order of analyses described does not represent relative importance or weight given to those analyses by Goldman Sachs and UBS. 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 the financial analyses of Goldman Sachs and UBS. 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 22, 2004 and is not necessarily indicative of current market conditions.

*Historical Stock Trading and Transaction Premium Analysis.* Goldman Sachs and UBS reviewed the historical trading prices and historical trading volumes for the shares of Ionics common stock and calculated the weighted average price per share of Ionics common stock for each of the three-month, six-month, one-year and three-year calendar periods ended on November 22, 2004. The weighted average prices per share of Ionics common stock calculated by Goldman Sachs and UBS ranged from \$25.57 to \$27.91.

In addition, Goldman Sachs and UBS calculated the implied premium represented by the \$44.00 per share of Ionics common stock purchase price to be received by holders of such shares pursuant to the Merger Agreement based on the following trading prices for the shares of Ionics common stock:

the closing price on November 22, 2004, which was the last trading day before the telephonic meeting of Ionics' board of directors at which the board of directors approved the transaction contemplated by the Merger Agreement;

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the closing price on October 29, 2004, which was the last trading day before the meeting between GE's and Ionics' chief executive officers; and

the average closing prices for the trailing four-week, three-month, six-month and twelve-month periods as of November 22, 2004.

The results of these calculations are reflected below:

<b>Day/Period</b>	<b>Price Per Share of Ionics Common Stock</b>	<b>Implied Premium</b>
November 22, 2004	\$30.21	45.6%
October 29, 2004	\$28.50	54.4%
Range of the average closing prices from the trailing four-week to trailing twelve-month periods	\$27.01 to 30.14	46.0 to 62.9%

Source: FactSet as of November 22, 2004

*Selected Companies Analysis.* Goldman Sachs and UBS reviewed and compared certain financial information for Ionics to corresponding financial information, ratios and public market multiples for the following selected publicly traded companies in the water technology industry:

BWT AG

Calgon Carbon Corporation

CUNO Incorporated

ESCO Technologies Inc.

Kurita Water Industries Ltd

Millipore Corporation

Pall Corporation

Severn Trent Plc

Zenon Environmental Inc.

Although none of the selected companies was directly comparable to Ionics, the companies included were chosen because they are publicly traded companies with business, end markets and operations that, for purposes of analysis, could be considered similar to certain business, end markets and operations of Ionics.

Goldman Sachs and UBS calculated and compared various public market multiples and ratios of the selected companies based on information it obtained from SEC filings and median estimates provided by the Institutional Brokerage Estimate System, or IBES (a data service that compiles estimates issued by securities analysts). The multiples and ratios of Ionics were based on IBES median estimates and Ionics management's estimates. The multiples and ratios of Ionics and of the selected companies were calculated using public trading market closing prices on November 22, 2004 and using the \$44.00 per share to be received by holders of Ionics common stock. With respect to Ionics and the selected companies, Goldman Sachs and UBS calculated:

the enterprise value, which is the value of common equity, calculated using the per share price and fully diluted shares outstanding based on each company's latest publicly available information, plus book value of net debt, which is total debt less cash and cash equivalents, plus book value of minority interest, as a multiple of last twelve months, or LTM, sales;



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the enterprise value as a multiple of LTM and estimated 2004 and 2005 EBITDA (earnings before interest, taxes, depreciation and amortization);

the enterprise value as a multiple of LTM EBIT (earnings before interest and taxes);

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the ratio of the price per share to the estimated 2004 and 2005 EPS (earnings per share), or P/ E multiple;

the ratio of the estimated 2005 P/ E multiple to the five-year EPS estimated compound annual growth rate, or CAGR;

LTM EBITDA and EBIT margins, calculated by dividing each company's LTM EBITDA and EBIT by its LTM sales; and

the dividend yield as of November 22, 2004.

Historical financial results utilized by Goldman Sachs and UBS for purposes of this analysis were based upon information contained in the applicable company's latest publicly available financial statements prior to November 22, 2004. The LTM period for this analysis refers to the latest twelve-month period from the most recent publicly available information for Ionics and the selected companies as of November 22, 2004. Ionics' financial results for the LTM period were calculated, as provided by Ionics management, on a pro forma basis to consolidate the financial performance of the Desalination Company of Trinidad and Tobago Ltd. (which we refer to as Desalcott), which Ionics began consolidating on January 1, 2004, and to account for the purchase of Ecolochem, Inc., which was completed on February 13, 2004. Ionics' net debt utilized in this analysis, as provided by Ionics management, included debt of Desalcott which is non-recourse to Ionics. Ionics' LTM EBITDA and EBIT, estimated 2004 and 2005 EBITDA and estimated EPS included adjustments by Ionics management for certain one-time charges. Ionics management calculated Ionics' estimated 2004 and 2005 EPS based on average diluted shares outstanding.

Estimates of future results used by Goldman Sachs and UBS in this analysis, for the selected companies, were based on median estimates provided by IBES and calendarized to year-end December 31, and for Ionics, were based on median estimates provided by IBES calendarized to year-end December 31 and estimates by Ionics management.

The results of these analyses are summarized in the following tables:

	<b>Enterprise Value Multiples</b>				
	<b>Sales</b>	<b>EBITDA</b>			<b>EBIT</b>
		<b>LTM</b>	<b>LTM</b>	<b>2004E</b>	
Selected Companies in the Water Technology Industry					
Median	2.1x	12.2x	11.4x	9.9x	16.8x
Mean	2.1	12.2	12.0	10.4	18.8
Range	1.0 to 3.2	7.9 to 17.6	7.4 to 18.4	7.0 to 15.3	10.3 to 31.8
Ionics at Nov. 22, 2004 closing price					
IBES	1.9	11.5	12.7	10.0	27.5
Management	1.9	11.5	11.1	8.2	27.5
Ionics at \$44.00 share price					
IBES	2.7	15.9	17.5	13.9	38.2
Management	2.7	15.9	15.4	11.4	38.2

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	Calendarized P/E Multiples		2005E	LTM Margins		Dividend Yield
	2004E	2005E	PE /5-Year EPS CAGR	EBITDA	EBIT	
Selected Companies in the Water Technology Industry						
Median	22.3x	19.0x	1.7x	17.2%	13.0%	1.1%
Mean	26.7	21.4	1.9	17.4	11.9	1.2
Range	17.4 to 47.0	14.6 to 29.1	0.5 to 3.7	7.9 to 36.7	4.2 to 21.9	0.0 to 5.3
Ionics at Nov. 22, 2004 closing price						
IBES	83.9	34.7	2.6	17.0	7.1	0.0
Management	62.7	23.2	NA	17.0	7.1	0.0
Ionics at \$44.00 share price						
IBES	122.2	50.6	3.7	17.0	7.1	0.0
Management	91.4	33.8	NA	17.0	7.1	0.0

*Implied Transaction Multiples.* Goldman Sachs and UBS calculated the \$44.00 per share purchase price to be received by holders of shares of Ionics common stock pursuant to the Merger Agreement as a multiple of EPS, the fully diluted equity consideration as a multiple of Ionics estimated 2004 year-end book value and the enterprise value amount as a multiple of other historical and estimated financial results for Ionics as follows:

Sales, EBITDA and EBIT provided by Ionics management, for the LTM period ended September 30, 2004;

Ionics management's estimates of sales, EBITDA, EBIT and EPS for 2004 and 2005, and estimated run-rate 2004 EBITDA calculated by Ionics management by annualizing the EBITDA for the second and third quarters of 2004; and

median sales, EBITDA, operating income and EPS estimates for 2004 and 2005 provided by IBES, as of November 22, 2004.

LTM sales, EBITDA and EBIT were calculated, as provided by Ionics management, on a pro forma basis to account for the purchase of Ecolochem, Inc., which was completed on February 13, 2004, and to consolidate Desalcott's financial performance, which Ionics began consolidating on January 1, 2004. Ionics management's estimates and LTM figures for EBITDA, run-rate EBITDA, EBIT and EPS included adjustments by Ionics management for certain one-time charges.

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The results of these analyses are as follows:

		<u>Actual and IBES Estimates Transaction Multiple</u>	<u>Management Estimates Transaction Multiple</u>
Enterprise Value/ Sales	LTM	2.7x	
	2004E	2.8	2.8x
	2005E	2.8	2.7
Enterprise Value/ EBITDA	LTM	15.9	
	2004E	17.5	15.4
	2004E Run-Rate		14.4
	2005E	13.9	11.4
Enterprise Value/ EBIT	LTM	38.2	
	2004E	45.5	35.6
	2005E	26.5	20.6
Price/ EPS	2004E	122.2	91.4
	2005E	50.6	33.8
Diluted Equity Consideration/ Book Value	December 31, 2004E	2.0	

*Selected Transactions Analysis.* Goldman Sachs and UBS analyzed certain information relating to the following selected transactions in the water technology industry since 1999:

<u>Date Announced</u>	<u>Acquiror</u>	<u>Target</u>
September 2004	Danaher Corporation	Trojan Technologies Inc.
July 2004	Clayton, Dubilier & Rice, Inc.	Culligan International Company
May 2004	Siemens AG	U.S. Filter Corp. Industrial Solutions and Services Group
February 2004	Pentair, Inc.	WICOR Industries
November 2003	Pentair, Inc.	Everpure, Inc.
November 2003	Ionics	Ecolochem, Inc.
November 2003	ITT Industries, Inc.	WEDECO AG
November 2002	GE Power Systems	Osmonics, Inc.
February 2002	Pall Corporation	U.S. Filter Corp. Filtration and Separation Group
April 1999	Pentair, Inc.	Essef Corporation
April 1999	Danaher Corporation	Hach Company
March 1999	Vivendi	U.S. Filter Corp.

None of the selected transactions nor the companies involved in them is directly comparable to the Merger or Ionics.

For each of the selected transactions and for the transaction contemplated by the Merger Agreement, Goldman Sachs and UBS calculated and compared the resulting:

enterprise value;

enterprise value as a multiple of LTM sales, LTM EBITDA and LTM EBIT; and

implied equity value per share premium to the four-weeks prior stock price.

For purposes of this analysis, enterprise value was calculated by determining each target company's implied equity value and then adding the book value of each target company's net debt and minority interest, or was obtained from other publicly disclosed information as of the respective announcement dates. LTM sales, EBITDA, EBIT, net debt and minority interest were calculated using each target



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company's most recent quarterly filing with the SEC or other publicly disclosed information as of the respective announcement dates.

The following table presents the results of this analysis:

	Enterprise Value as a Multiple of:			Implied Equity Value Per Share Premium to Four-Weeks Prior Stock Price
	LTM Sales	LTM EBITDA	LTM EBIT	
Median	1.5x	12.6x	18.0x	33.7%
Mean	1.8	14.3	22.6	40.3
Range	0.8 to 3.6	8.4 to 27.0	12.0 to 53.4	22.4 to 65.4
Ionics at \$44 share price	2.7	15.9	38.2	58.4

Source: Public filings, news releases

*Discounted Cash Flow Analysis.* Goldman Sachs and UBS performed a discounted cash flow analysis on Ionics using Ionics management's estimates for fiscal years 2005-2010. Goldman Sachs and UBS calculated implied present values of free cash flows for Ionics for the fiscal years 2005 through 2010 using discount rates ranging from 10% to 12%. Goldman Sachs and UBS calculated the implied terminal value for Ionics using multiples ranging from 8.0x to 11.0x 2010 terminal year estimated EBITDA, which was adjusted to include cash dividends from affiliates. The implied terminal values were then discounted back to December 31, 2004 using discount rates ranging from 10% to 12%. The calculations of the implied present values of free cash flows plus the implied present value of the implied terminal value was summed by Goldman Sachs and UBS to arrive at implied enterprise values. Implied equity values were calculated by Goldman Sachs and UBS as the implied enterprise values less estimated book value of net debt (which consists of estimated total debt as of December 31, 2004, less estimated Desalcott debt that is non-recourse to Ionics, estimated cash and cash equivalents) and estimated book value of minority interest, as provided by Ionics management. Implied prices per share of Ionics common stock were calculated based on the fully diluted shares of Ionics common stock outstanding as of September 30, 2004 provided by Ionics' management and assumes that 4.5 million options were outstanding with a weighted average strike price of \$25.30 per share. For purposes of this analysis, the Ionics financial results did not consolidate Desalcott financial performance and were adjusted for certain one-time charges. Estimates of Ionics' financial results utilized in this analysis, as well as the adjustments for certain one-time charges, were provided to Goldman Sachs and UBS by Ionics management. This analysis resulted in implied enterprise values ranging from \$774 million to \$1,105 million and implied per share of Ionics common stock values ranging from \$28.54 to \$40.95.

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 herein, without considering the analyses as a whole, could create an incomplete view of the processes underlying the opinions of Goldman Sachs and UBS. In arriving at their respective fairness determinations, Goldman Sachs and UBS each separately considered the results of all of their analyses and did not attribute any particular weight to any factor or analysis considered by them. Rather, Goldman Sachs and UBS each separately made their respective determinations as to fairness on the basis of their experience and professional judgment after considering the results of all of their analyses. No company or transaction used in the analyses described herein as a comparison is directly comparable to Ionics or the contemplated transaction.

Goldman Sachs and UBS prepared the analyses described herein for purposes of providing their respective opinions to the Ionics board of directors as to the fairness from a financial point of view to the holders of shares of Ionics common stock of the consideration to be received by such holders in the Merger contemplated by the Merger 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

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uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Ionics, Goldman Sachs, UBS or any other person assumes responsibility if future results are materially different from those forecasted.

As described above, the respective opinions of Goldman Sachs and UBS to the Ionics board of directors were one of many factors taken into consideration by the Ionics board of directors in making its determination to approve the transaction contemplated by the Merger Agreement. Goldman Sachs and UBS were not asked to, and did not, recommend the specific consideration payable in the Merger, which consideration was determined through negotiations between GE and Ionics. The summary contained herein does not purport to be a complete description of the analyses performed by Goldman Sachs and UBS in connection with their respective fairness opinions and is qualified in its entirety by reference to the opinion of Goldman Sachs and the opinion of UBS, attached as Annex B-1 and Annex B-2, respectively.

**Interests of Certain Persons in the Merger**

In considering the recommendation of Ionics' board of directors in favor of the Merger, you should be aware that there are provisions of the Merger Agreement, the Voting Agreement and other existing agreements that will result in certain benefits to Ionics' directors and executive officers that are not available to stockholders generally. Ionics' board of directors was aware of, and considered the interests of, its directors and executive officers and the potential conflicts arising from such interests in its deliberations of the merits of the Merger and in adopting and approving the Merger Agreement and the Merger. Other than the provisions of the Merger Agreement and the Voting Agreement described below, and the bonuses described below that were not contractually required, the arrangements described below were in existence before the discussions about the Merger began. Stockholders should take these benefits into account in deciding whether to vote for approval of the Merger Agreement.

*Stock Options.* In connection with the Merger, the Ionics board of directors authorized the acceleration of the vesting of options to purchase shares of Ionics common stock held by certain executive officers of Ionics and gave the chief executive officer the authority to accelerate such options. As of January 26, 2005, no such options have been accelerated.

In addition, upon the completion of the Merger, all Ionics stock options will immediately vest and become exercisable. All outstanding stock options will be converted at the effective time into the right to receive a cash payment equal to the excess, if any, of \$44.00 over the exercise price of such stock option multiplied by the number of shares subject to such stock option. The following table sets forth as of January 26, 2005, the number of shares of Ionics common stock subject to options held by Ionics' executive officers and directors, the number of shares of Ionics common stock subject to options held by such persons that will vest as a result of the Merger and the estimated cash payment such persons will receive pursuant to the conversion of their options.

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<b>Name</b>	<b>Shares of Common Stock Subject to Outstanding Options</b>	<b>Shares of Common Stock Subject to Outstanding Options that Vest as a Result of the Merger</b>	<b>Weighted Average Exercise Price Per Share of All Options</b>	<b>Weighted Average Exercise Price Per Share of Options that Vest as a Result of the Merger</b>	<b>Realizable Value of Options that Vest as a Result of the Closing of the Merger</b>	<b>Realizable Value of All Options at the Closing of the Merger</b>
Douglas R. Brown	468,000	350,000	\$ 17.8418	\$ 18.1343	\$ 9,053,000.00	\$ 12,242,035.00
Lyman B. Dickerson	0	0	\$ 0	\$ 0	\$ 0	\$ 0
John Curtis	240,000	150,000	\$ 22.2229	\$ 22.3567	\$ 3,246,500.00	\$ 5,226,500.00
Edward J. Cichon	120,000	52,000	\$ 23.8325	\$ 22.1469	\$ 1,136,360.00	\$ 2,420,100.00
Stephen Korn	165,000	46,000	\$ 28.8898	\$ 22.0795	\$ 1,008,345.00	\$ 2,493,175.00
Daniel M. Kuzmak	125,000	103,000	\$ 24.3018	\$ 23.3305	\$ 2,128,955.00	\$ 2,462,275.00
Alan Crosby	68,200	33,800	\$ 25.8710	\$ 22.3908	\$ 730,390.00	\$ 1,236,400
Anthony DiPaola	41,000	31,400	\$ 23.1695	\$ 22.8942	\$ 662,722.00	\$ 854,050.00
Michael W. Routh	65,000	41,000	\$ 22.9390	\$ 22.6421	\$ 875,672.50	\$ 1,368,962.50
Stephen L. Brown	10,000	0	\$ 23.0540	\$ 0	\$ 0	\$ 209,460.00
Kathleen F. Feldstein	14,000	0	\$ 25.0832	\$ 0	\$ 0	\$ 264,835.00
William K. Reilly	10,000	0	\$ 23.0540	\$ 0	\$ 0	\$ 209,460.00
John J. Shields	14,500	0	\$ 25.1666	\$ 0	\$ 0	\$ 273,085.00
Frederick T. Stant III	2,000	0	\$ 25.1000	\$ 0	\$ 0	\$ 37,800.00
Robert H. Temkin	2,000	0	\$ 25.1000	\$ 0	\$ 0	\$ 37,800.00
Daniel I. C. Wang	14,000	0	\$ 25.0832	\$ 0	\$ 0	\$ 264,835.00
Mark S. Wrighton	15,000	0	\$ 25.2443	\$ 0	\$ 0	\$ 281,335.00
Allen Wyett	15,000	0	\$ 25.2443	\$ 0	\$ 0	\$ 281,335.00

*Note:* The table does not include stock options with an exercise price exceeding \$44.00 per share of Ionics common stock.

*Stock Ownership.* Many of Ionics' officers and directors also beneficially own shares of Ionics common stock. For a further description of these stock holdings, see "Security Ownership of Certain Beneficial Owners and Management" beginning on page 53.

*Severance Arrangements under Existing Employment Agreements.* Ionics has entered into employment agreements with each of Douglas R. Brown, John F. Curtis and Lyman B. Dickerson that provide for salary and other employment terms. Each agreement also provides that if, among other events, (i) the employee terminates his employment for good cause (as defined in each employment agreement) within 24 months of a change in control or (ii) Ionics terminates the employee's employment without cause (as defined in each employment agreement), then the employee shall receive a severance benefit equal to 18 months of his then-current base salary plus an amount equal to 1.5 times the employee's target bonus for the fiscal year in which such termination occurs, in addition to any benefits required to be paid by law and the customary post-termination benefits in accordance with Ionics' retirement, insurance and other benefit plans and arrangements, including any earned but unpaid bonus. On November 23, 2004, the Ionics board of directors established target bonuses for the fiscal year ending December 31, 2005 for Messrs. Brown, Curtis and Dickerson of \$600,000, \$300,000 and \$250,000, respectively. The severance benefits payable to Messrs. Brown, Curtis and Dickerson under these employment agreements if their employment were terminated under such circumstances would be \$1,500,000, \$975,000 and \$750,000, respectively. As of the date of this Proxy Statement, GE has not indicated to Ionics on what basis the employment of Messrs. Brown, Curtis and Dickerson will be continued, or if it will be continued, after the completion of the Merger. As a result, Ionics is not aware of whether such severance benefits will be paid.

*Severance Arrangements under Existing Employee Retention Agreements.* Ionics has entered into employee retention agreements with each of the following executive officers: Edward Cichon, Alan Crosby, Anthony DiPaola, Stephen Korn and Daniel Kuzmak. Pursuant to each such retention agreement, if within 24 months of a change in control, a successor to Ionics terminates the employee other than for cause (as defined in each retention agreement) or the employee terminates his employment for good



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reason (as defined in each retention agreement), then the employee is entitled to: (i) the employee's full base salary and all other compensation due through the termination date; (ii) a lump sum severance payment equal to the sum of 200% of the average of the employee's base salary in effect on the termination date and the two preceding calendar years, plus 200% of the average of the aggregate cash bonuses paid to the employee in the last three calendar years; (iii) any legal fees and expenses incurred in connection with the termination; and (iv) for a 24 month period after termination, life, disability, dental and group health insurance benefits substantially similar to the benefits the employee was receiving immediately prior to the termination date, unless the employee otherwise receives equivalent benefits during this period. The lump sum severance payment payable to Messrs. Cichon, Crosby, DiPaola, Korn and Kuzmak under these employment agreements if their employment were terminated under such circumstances would be \$661,666, \$681,666, \$525,133, \$825,700 and \$738,667, respectively. As of the date of this Proxy Statement, GE has not indicated to Ionics on what basis the employment of Messrs. Cichon, Crosby, DiPaola, Korn and Kuzmak will be continued, or if it will be continued, after the completion of the Merger. As a result, Ionics is not aware of whether such severance payments will be made.

*Executive Bonus Payments.* On November 23, 2004, the Ionics board of directors approved the payment of an aggregate of \$870,000 in cash bonuses to 11 management employees with respect to the fiscal year ended December 31, 2004. These bonuses, which were paid during December 2004, included bonuses of \$100,000 to each of Messrs. Brown, Curtis and Kuzmak and bonuses of \$75,000 to each of Messrs. Cichon and Korn. These bonuses were in addition to the contractually required cash bonuses of \$400,000 and \$150,000 to Messrs. Brown and Curtis, respectively, which were also paid during December 2004.

In addition, the Ionics board of directors approved the payment of an aggregate of up to another \$630,000 in cash bonuses to Ionics employees (other than Messrs. Brown and Dickerson) with respect to the fiscal year ended December 31, 2004. These bonuses will be paid to employees (which may include certain executive officers), in the amounts and at the times determined by Ionics' Chief Executive Officer. To date, Mr. Korn is the only named executive officer to receive such a bonus, which was for \$25,000.

*Indemnification of Directors and Executive Officers and Insurance.* The Merger Agreement provides that GE will cause Ionics, as the surviving corporation in the Merger, to indemnify the individuals who were at or prior to the Closing Date directors or officers of Ionics with respect to actions or omissions by them as such at any time prior to the Closing Date to the fullest extent permitted by (i) Ionics' certificate of incorporation or bylaws in effect as of November 24, 2004, (ii) any applicable contract in effect as of November 24, 2004 and (iii) applicable law; provided that such persons shall not be indemnified for any criminal conduct, fraud or breach of the Merger Agreement. The Merger Agreement further provides that, after the Merger, GE will, or will cause Ionics as the surviving corporation to provide, for a period not less than six years, directors' and officers' liability insurance covering those persons who were, as of the date of the Merger Agreement, covered by Ionics' directors' and officers' liability insurance policy, on terms no less favorable than those in effect on the date of the Merger Agreement. GE will not be required to pay an annual premium for such insurance that exceeds 150% of the annual premium that Ionics currently pays for such insurance.

*Ecolochem Escrow Agreement.* In connection with Ionics' acquisition of the Ecolochem Group on February 13, 2004, the Ecolochem Holders agreed to indemnify Ionics for losses arising from certain breaches of representations, warranties, covenants and agreements made by them in the definitive acquisition agreement. To secure a portion of the Ecolochem Holders' indemnification obligations, \$20,000,000 in cash and 490,566 shares of Ionics common stock (which constitutes only a portion of the cash and shares received by the Ecolochem Holders in the acquisition) were escrowed pursuant to the Escrow Agreement dated as of February 13, 2004 by and among Ionics and the Ecolochem Holders (the Ecolochem Escrow Agreement). Subject to certain limitations, on February 13, 2005, the escrow agent is required to distribute to the Ecolochem Holders any amounts held in escrow in excess of 50% of the escrowed cash and shares of Ionics common stock, less the amount of any pending claims for indemnification. Subject to certain limitations, on February 13, 2006, the escrow agent is required to distribute to the Ecolochem Holders any remaining amounts held in escrow, less the amount of any

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pending claims for indemnification. As of January 26, 2005, no claims for indemnification were pending.

As consideration for the Ecolochem Holders' agreement to enter into the Voting Agreement and to vote their shares of Ionics common stock in favor of the Merger Agreement, GE agreed that, after the completion of the Merger, any remaining amounts then held in escrow (less the amount of any pending claims for indemnification) will be distributed to the Ecolochem Holders. While the Ecolochem Holders will still be liable for indemnification claims, the escrowed amounts will be distributed to them earlier than contemplated by the Ecolochem Escrow Agreement. Lyman Dickerson, a director and executive officer of Ionics, and persons related to him beneficially own all of the cash and shares of Ionics common stock held in escrow and may be deemed to benefit from shortening the deadline for recovery of indemnification claims from the escrowed amounts and the resulting release of the cash and Ionics common stock from escrow.

## **Appraisal Rights**

The Massachusetts legislature adopted a new Massachusetts Business Corporation Act (the "MBCA") in July 2004, which repealed and replaced the Massachusetts Business Corporation Law, including the provisions related to appraisal rights.

*General.* Section 13.02(a) of the MBCA provides generally that stockholders of Massachusetts corporations are entitled to appraisal rights in the event of a merger. Although an exemption set forth in Section 13.02(a)(1) of the MBCA provides that stockholders are not entitled to appraisal rights in transactions similar to the Merger where cash is the sole consideration received by the stockholders, Ionics believes that certain persons or entities may have a direct or indirect material financial interest in the Merger, as described in the section entitled "The Merger Interests of Certain Persons in the Merger" on page 33, which renders this exemption inapplicable with respect to the Merger. Accordingly, Ionics believes its stockholders are entitled to appraisal rights under Massachusetts law.

Any stockholder who wishes to exercise appraisal rights or who wishes to preserve that right should review carefully the following discussion and Sections 13.01 through 13.31 of Part 13 of the MBCA, attached as Annex D to this Proxy Statement. **Failure to strictly comply with the procedures specified in Part 13 of the MBCA will result in the loss of appraisal rights.**

*Notice of Intent and Demand for Payment.* Any holder of Ionics common stock wishing to exercise the right to demand appraisal under Part 13 of the MBCA must satisfy each of the following conditions:

Before the vote to approve the Merger Agreement is taken, an Ionics stockholder electing to exercise his or her appraisal rights must deliver to Ionics written notice of such stockholder's intent to demand payment for his or her shares if the Merger is completed. The written notice should be delivered to Stephen Korn, Secretary, Ionics, Incorporated, 65 Grove Street, Watertown, Massachusetts 02472-2882. Ionics recommends you send your notice by registered or certified mail, return receipt requested; and

An Ionics stockholder electing to exercise his or her appraisal rights must **NOT** vote in favor of the proposal to approve the Merger Agreement. If a stockholder returns a signed proxy but does not specify a vote against the proposal to approve the Merger Agreement or a direction to abstain, the proxy will be voted **FOR** the Merger Agreement, which will have the effect of waiving that stockholder's appraisal rights.

Generally, a stockholder may assert appraisal rights only if the stockholder seeks them with respect to all of the holder's shares of common stock. Stockholders of record for more than one beneficial stockholder may assert appraisal rights with respect to fewer than all the shares registered in such stockholder's name as holder of record, provided that such stockholder notifies Ionics in writing of the name and address of each beneficial stockholder on whose behalf such stockholder is asserting appraisal rights. For a beneficial stockholder to assert appraisal rights, such beneficial stockholder must submit to Ionics such record stockholder's written consent to the assertion of such rights not fewer than 40 nor more than 60 days after Ionics sends out written notice to the stockholder of appraisal rights, as described

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below. **Stockholders who hold their shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by the nominee.**

*Appraisal Notice and Form.* If the Merger Agreement is approved, within 10 days after the effective date of the Merger, Ionics will deliver a written appraisal notice and a form containing certain information to all stockholders who have properly demanded appraisal rights. The appraisal notice will include a copy of Part 13 of the MBCA and a form that specifies the date of the first announcement to stockholders of the principal terms of the Merger. The form will require the stockholder asserting appraisal rights to certify (i) whether or not beneficial ownership of the shares for which appraisal rights are asserted were acquired before the date of the first announcement of the proposed Merger and (ii) that the stockholder did not vote for proposal to approve the Merger Agreement. The form provided with the appraisal notice will state:

where the form must be returned, where certificates for shares must be deposited, and the date by which such certificates must be deposited;

the date on which the form is due, which will not be fewer than 40 nor more than 60 days after the date the appraisal notice and form are sent, and notice that the stockholder shall have waived the right to demand appraisal with respect to such shares unless the form is received by the specified date;

Ionics' estimate of the fair value of the shares;

that, if requested in writing, Ionics will provide within 10 days after the date on which all forms are due, the number of stockholders who have returned the forms and the total number of shares owned by such stockholders; and

the date by which the stockholder may withdraw his or her notice of intent to demand appraisal rights, which date will be within 20 days after the date on which all forms are due.

*Perfection of Rights.* A stockholder who wishes to exercise appraisal rights shall execute and return the form provided, with all certifications completed, and deposit such stockholder's share certificates in accordance with the terms of the notice. Once a stockholder deposits his or her share certificates, such stockholder loses all rights as a stockholder unless the stockholder withdraws his or her election in accordance with the withdrawal procedures, which are summarized below. If a stockholder fails to make the certification on the form that such stockholder acquired the shares before the date of the first announcement of the proposed Merger, Ionics may elect to treat those shares as after-acquired shares, as described below.

*Withdrawal of Appraisal Rights.* A stockholder who has otherwise properly perfected his or her appraisal rights may decline to exercise his or her appraisal rights and withdraw from the appraisal process by notifying Ionics in writing within 20 days after the date on which all forms were due. If the stockholder fails to withdraw from the appraisal process before the expiration of the withdrawal period, such stockholder may not thereafter withdraw without Ionics' written consent.

*Payment.* Within 30 days after the date on which the form described above is due, Ionics will pay in cash to each stockholder who has properly perfected his or her appraisal rights the amount it estimates to be the fair value of their shares, plus interest but subject to any applicable withholding taxes. The payment to each stockholder will be accompanied by:

Ionics' financial statements;

a statement of Ionics' estimate of the fair value of the shares, which estimate will equal or exceed the estimate given with the appraisal notice; and

a statement that stockholders may demand further payment if the stockholder is dissatisfied with the payment or offer in accordance with the procedures set forth in Section 13.26 of the MBCA (as described below).

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Notwithstanding the foregoing, in the event that the stockholder is demanding payment for after-acquired shares, Ionics may elect to withhold payment from such stockholder. If Ionics elects to withhold payment, it must, within 30 days after the date on which the form described above is due, notify all stockholders who have after-acquired shares :

of the information in Ionics financial statements;

of Ionics estimate of the fair value of the shares, which estimate will equal or exceed the estimate given with the appraisal notice;

that the stockholders may accept the estimate of fair value, plus interest, in full satisfaction of their demands or demand appraisal under Section 13.26 of the MBCA (described below);

that those stockholders who wish to accept Ionics offer shall notify Ionics of their acceptance within 30 days after receiving such offer; and

that those stockholders who do not satisfy the requirements for demanding appraisal under Section 13.26 shall be deemed to have accepted Ionics offer.

Within 10 days after receiving the stockholder s acceptance of the offer, Ionics will pay in cash the amount offered to each stockholder who agreed to accept Ionics offer for his or her after-acquired shares. Within 40 days after sending the notice to holders of after-acquired shares , Ionics must pay in cash the amount offered to each stockholder who does not satisfy the requirements for demanding appraisal under Section 13.26.

*Procedure if Stockholder is Dissatisfied with Payment or Offer.* Pursuant to Section 13.26, within 30 days after receipt of payment for a stockholder s shares, a stockholder who is dissatisfied with the amount of the payment to be received shall notify Ionics in writing of that stockholder s estimate of the fair value of the shares and demand payment of that estimate plus interest, less any payment previously paid. In addition, within 30 days after receiving Ionics offer to pay for a stockholder s after-acquired shares , a stockholder holding after-acquired shares who was offered payment (as described above) and who is dissatisfied with that offer shall reject the offer and demand payment of the stockholder s stated estimate of the fair value of the shares plus interest. A stockholder s failure to notify Ionics within such 30 day period waives the right to demand payment and shall be entitled only to the payment made or offered as described above.

*Court Proceedings.* If a stockholder makes a proper and timely demand for payment that remains unsettled, Ionics will commence an equitable proceeding within 60 days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If Ionics does not commence the proceeding within the 60-day period, it will pay in cash to each stockholder the amount the stockholder demanded, plus interest.

**Any stockholder wishing to exercise appraisal rights is urged to consult legal counsel before attempting to exercise appraisal rights. Failure to strictly comply with all of the procedures set forth in Part 13 of the MBCA may result in the loss of a stockholder s statutory appraisal rights.**

### **Delisting and Deregistration of Ionics Common Stock**

If the Merger is completed, Ionics common stock will be delisted from the New York Stock Exchange and will be deregistered under the Securities Exchange Act of 1934.

### **U.S. Federal Income Tax Treatment**

The following is a discussion of the material federal income tax consequences of the Merger to holders of Ionics common stock. The discussion is based upon the Internal Revenue Code, Treasury regulations, IRS rulings and judicial and administrative decisions in effect as of the date of this Proxy Statement, all of which are subject to change (possibly with retroactive effect) or to different interpretations. The following discussion is limited to the material federal income tax aspects of the

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Merger to a stockholder of Ionics who is a citizen or resident of the United States and who, on the date on which the Merger is completed, holds shares of Ionics common stock as a capital asset. The following discussion does not address taxpayers subject to special treatment under federal income tax laws, such as insurance companies, financial institutions, dealers in securities, tax-exempt organizations, S corporations and taxpayers subject to the alternative minimum tax. In addition, the following discussion may not apply to stockholders who acquired their shares of Ionics common stock upon the exercise of employee stock options or otherwise as compensation for services or who hold their shares as part of a hedge, straddle or conversion transaction.

The following discussion does not address potential foreign, state, local and other tax consequences of the Merger. All stockholders are urged to consult their own tax advisors regarding the federal income tax consequences, as well as the foreign, state and local tax consequences, of the disposition of their shares in the Merger.

For federal income tax purposes, the Merger will be treated as a taxable sale or exchange of Ionics common stock for cash by each Ionics stockholder. Accordingly, the federal income tax consequences to the Ionics stockholders receiving cash will generally be as follows:

The stockholder will recognize a capital gain or loss upon the disposition of the stockholder's shares of Ionics common stock pursuant to the Merger.

The capital gain or loss, if any, will be long-term with respect to shares of Ionics common stock that have a holding period for tax purposes in excess of twelve months at the time such Ionics common stock is disposed of.

The amount of capital gain or loss recognized by each stockholder will be measured by the difference between the amount of cash received by the stockholder in connection with the Merger and the stockholder's adjusted tax basis in the shares of Ionics common stock at the effective time of the Merger.

Cash payments made pursuant to the Merger will be reported to Ionics stockholders and the Internal Revenue Service to the extent required by the Internal Revenue Code and applicable regulations. These amounts will ordinarily not be subject to withholding of U.S. federal income tax. However, backup withholding of the tax at applicable rates may apply to a stockholder who fails to supply Ionics or the paying agent selected by GE with the stockholder's taxpayer identification number or has received notice from the Internal Revenue Service of a failure to report all interest and dividends required to be shown on the stockholder's federal income tax returns, or in certain other cases. Accordingly, each Ionics stockholder will be asked to provide a correct taxpayer identification number on a Substitute Form W-9 which is to be included in the appropriate letter of transmittal for the shares of Ionics common stock. Certain Ionics stockholders will be asked to provide additional tax information in the appropriate letter of transmittal for the shares of Ionics common stock.

THE FOREGOING DISCUSSION OF CERTAIN MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS INCLUDED FOR GENERAL INFORMATIONAL PURPOSES ONLY AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED AS, LEGAL OR TAX ADVICE TO ANY HOLDER OF SHARES OF IONICS COMMON STOCK. IONICS URGES YOU TO CONSULT YOUR OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO YOU (INCLUDING THE APPLICATION AND EFFECT OF ANY STATE, LOCAL OR FOREIGN INCOME AND OTHER TAX LAWS) OF THE RECEIPT OF CASH IN EXCHANGE FOR SHARES OF IONICS COMMON STOCK PURSUANT TO THE MERGER.

**Federal or State Regulatory Filings Required in Connection with the Merger**

*United States Antitrust.* Under the HSR Act, the Merger may not be completed until notifications have been given and certain information and materials have been furnished to the Antitrust Division of the United States Department of Justice and the Federal Trade Commission and the required waiting period

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has expired or been terminated. Ionics and GE filed the required notification and report forms under the HSR Act with the Department of Justice and the Federal Trade Commission on December 20, 2004 and December 22, 2004, respectively, and the required waiting period expired on January 21, 2005.

*Other Jurisdictions.* Ionics and GE 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 Merger. Ionics and GE believe that additional filings will be required to be made in Austria, Brazil, Germany, Hungary, Ireland, Italy and South Korea. Under the regulations in Austria, Germany and Ireland, the Merger cannot be completed until the applicable approvals or expiration or termination of any applicable waiting periods have been made or expired or terminated. To date, Ionics and GE have made filings in the following jurisdictions:

Country	Date Filed
Austria	December 17, 2004
Brazil	December 15, 2004
Germany	December 23, 2004
Hungary	December 22, 2004
Ireland	December 23, 2004
Italy	January 7, 2005

*Other.* Other than those described above and (i) the requirement that Ionics file this Proxy Statement with the SEC and (ii) certain other filings required to be made under the Exchange Act, Ionics is not aware of any federal or state regulatory requirements or approvals that must be complied with or obtained in connection with the Merger.

**Rights Plan Amendment**

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 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 Ionics 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 Ionics 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 Ionics board of directors, 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

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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 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 Ecolochem Holders of shares of Ionics common stock in connection with the acquisition of the Ecolochem Group by Ionics and to certain post-closing transactions effected by the Ecolochem Holders with respect to such shares.

In connection with the execution and delivery of the Merger Agreement, Ionics' board of directors approved Amendment No. 2 (the Rights Amendment) to the Renewed Rights Plan on November 23, 2004. The Rights Amendment amends certain sections and definitions of the Renewed Rights Plan thereby rendering the Renewed Rights Plan inapplicable to the acquisition by GE or its affiliates of shares of Ionics common stock in connection with the Merger.

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 Rights Amendment has been filed with the SEC as an exhibit to Ionics' Current Report on Form 8-K filed with the SEC on November 30, 2004. Copies of the Renewed Rights Plan and Amendments No. 1 and 2 to the Renewed Rights Plan are available free of charge from Ionics.

## **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 the Commonwealth of Massachusetts and the target company and paying a fee to the Secretary of the Commonwealth. The Secretary of the Commonwealth 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 Merger and recommended the acceptance of the terms thereof to Ionics' stockholders. Therefore, the Merger is not a take-over bid under Chapter 110C.

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,

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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 Merger, exempting the Merger from the provisions of Chapter 110F.

**MERGER AGREEMENT AND OTHER RELATED AGREEMENTS**

This section of the Proxy Statement provides a summary of the Merger Agreement, which is the definitive agreement governing the Merger, and certain other agreements relating to the Merger. This summary, however, may not contain all of the information that is important to you. Ionics urges you to carefully read the Merger Agreement, which appears as Annex A to this Proxy Statement.

**Merger Consideration**

Upon completion of the Merger, each outstanding share of Ionics common stock will be converted into the right to receive \$44.00 in cash, without interest. The price of \$44.00 per share was determined through arm's-length negotiations between Ionics and GE. Upon completion of the Merger, no shares of Ionics common stock will remain outstanding and all shares will automatically be canceled and will cease to exist.

**Conversion of Shares; Procedures for Exchange of Certificates**

Your right to receive \$44.00 per share in cash, without interest, will arise automatically upon completion of the Merger. Prior to the effective time of the Merger, GE will enter into an agreement with a bank or trust company selected by GE to act as the paying agent under the Merger Agreement. GE will deposit with the paying agent cash amounts sufficient to enable the paying agent to pay the aggregate merger consideration to the holders of shares of Ionics common stock.

Promptly after the effective time of the Merger, the paying agent will mail to each record holder of shares, a letter of transmittal and instructions for use in surrendering certificates in exchange for the merger consideration. No stockholder should surrender any certificates until the stockholder receives the letter of transmittal and other materials for such surrender. Upon surrender of a stock certificate for cancellation to the paying agent, together with a letter of transmittal, duly executed, the holder of such certificate will be entitled to receive the merger consideration into which the number of shares of common stock previously represented by such stock certificate(s) shall have been converted pursuant to the Merger Agreement, without any interest thereon. The certificates so surrendered will be canceled.

In the event of a transfer of ownership of shares of common stock which is not registered in Ionics' transfer records, payment may be made with respect to such shares to the transferee if the stock certificate representing such shares is presented to the paying agent, accompanied by all documents reasonably required by the paying agent to evidence such transfer and to evidence that any applicable stock transfer taxes relating to such transfer have been paid.

If your stock certificate has been lost, stolen or destroyed, the paying agent will deliver to you the applicable merger consideration for the shares represented by that certificate:

if you make an affidavit claiming such certificate has been lost, stolen or destroyed; and

if requested by GE or the paying agent, you post a bond in a reasonable amount as indemnity against any claim that may be made with respect to that certificate against GE or the paying agent.

Stockholders should not send their certificates now and should send them only pursuant to instructions set forth in the letter of transmittal to be mailed to stockholders promptly after the effective time of the Merger. In all cases, the merger consideration will be provided only in accordance with the procedures set forth in this Proxy Statement and such letter of transmittal.



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One hundred and eighty days after the effective time of the Merger, the paying agent will deliver to the surviving corporation any funds made available to the paying agent which have not been disbursed to holders of Ionics stock certificates. Any holders of certificates who have not complied with the above-described procedures to receive payment of the merger consideration during such one hundred and eighty day period may thereafter look only to the surviving corporation for payment of the merger consideration to which they are entitled.

The cash paid to you upon conversion of your shares of Ionics common stock will be issued in full satisfaction of all rights relating to the shares of Ionics common stock.

## **Effect on Ionics Stock Options**

The vesting of each stock option to acquire Ionics common stock outstanding at the effective time of the Merger will be accelerated, such that upon the completion of the Merger, all such options will be fully vested and exercisable. Each outstanding stock option to acquire Ionics common stock will be converted at the effective time of the Merger into the right to receive, as soon as practicable (but in no event later than five business days) after the effective time of the Merger, a cash payment equal to the product of (1) the excess of the merger consideration over the per share exercise price of such stock option, multiplied by (2) the aggregate number of shares of common stock then subject to such stock option, whether or not then vested or exercisable.

## **Effective Time of the Merger**

The Merger will become effective upon the filing of articles of merger with the Massachusetts Secretary of State or at such later time as is agreed upon by GE and Ionics and specified in the articles of merger. The filing of the articles of merger will occur on the closing date (the Closing Date ). Subject to the terms and conditions of the Merger Agreement and in accordance with Massachusetts law, at the effective time of the Merger, Merger Sub, an indirect wholly-owned subsidiary of GE and a party to the Merger Agreement, will merge with and into Ionics. Ionics will survive the Merger as an indirect wholly-owned Massachusetts subsidiary of GE. If the Merger Agreement is approved by Ionics stockholders, the Merger will be completed as soon as all of the other conditions to the Merger set forth in the Merger Agreement have been satisfied or waived by GE or Ionics, as applicable. These conditions are described below under Merger Agreement and Other Related Agreements Conditions to Closing.

## **Representations and Warranties**

The Merger Agreement contains representations and warranties of each party to the agreement. These representations and warranties will expire upon completion of the Merger.

The Merger Agreement contains customary representations and warranties of Ionics as to, among other things:

Ionics organization, good standing and corporate power;

Ionics capitalization;

authorization, noncontravention, voting requirements;

governmental approvals;

Ionics SEC documents; the absence of undisclosed liabilities;

absence of certain changes or events;

legal proceedings;

compliance with laws; permits;

accuracy of information in this Proxy Statement;

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tax matters;

employee benefits and labor matters;

environmental matters;

contracts;

government contracts;

title to properties;

intellectual property;

insurance;

opinions of financial advisors;

brokers and other advisors;

state takeover statutes; and

Ionics' Renewed Rights Plan.

In addition, the Merger Agreement contains representations and warranties by GE and Merger Sub as to, among other things, GE having the necessary corporate power and authority, and sufficient funds to complete the transactions contemplated by the Merger Agreement.

The representations and warranties in the Merger Agreement are complicated and not easily summarized. You are urged to read carefully and in their entirety the sections of the Merger Agreement entitled "Representations and Warranties of the Company" and "Representations and Warranties of Parent and Merger Sub" in Annex A to this Proxy Statement.

**Covenants of the Parties**

***Conduct of Ionics' Business***

Ionics agreed in the Merger Agreement that, unless GE otherwise consents in writing, Ionics will carry on its business in the ordinary course, consistent with past practice, comply in all material respects with all applicable laws and the requirements of all material contracts and permits, make all voluntary disclosures deemed appropriate to governmental authorities and use commercially reasonable efforts to (i) maintain and preserve intact Ionics' business organization and the goodwill of those having significant business relationships with Ionics, (ii) retain the services of its present officers and key employees and (iii) keep in full force and effect all material insurance policies maintained by Ionics and its subsidiaries, other than changes to such policies made in the ordinary course of business consistent with past practice.

In addition, Ionics has agreed that, subject to specified exceptions, neither Ionics nor any of its subsidiaries may, without GE's prior written consent:

issue, sell, grant, dispose of, pledge or otherwise encumber any shares of Ionics' capital stock, voting securities or equity interests, or any securities or rights convertible into, exchangeable or exercisable for, or evidencing the right to subscribe for any shares of Ionics' capital stock, voting securities or equity interests, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any shares of Ionics' capital stock, voting securities or equity interests or any securities or rights convertible into, exchangeable or exercisable for, or evidencing the right to subscribe for, any shares of Ionics' capital stock, voting securities or equity interests; provided that Ionics may issue shares of its Common Stock in connection with the exercise of outstanding options;

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redeem, purchase or otherwise acquire any of Ionics outstanding shares of capital stock, voting securities or equity interests, or any rights, warrants, calls, commitments, or options or any other

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agreements of any character to acquire any shares of Ionics capital stock, voting securities or equity interests;

declare, set aside for payment or pay any dividend on, or make any other distribution in respect of, any shares of Ionics capital stock or otherwise make any payments to Ionics stockholders in their capacity as such;

split, combine, subdivide or reclassify any shares of Ionics capital stock;

amend or waive any of Ionics rights under, or accelerate the vesting under, any provision of Ionics stock plans or any agreement evidencing any outstanding stock option or rights to acquire Ionics capital stock; provided that Ionics shall be permitted to amend its Amended and Restated 1997 Stock Incentive Plan or any agreements granted thereunder, as well as certain other option agreements in order to allow any such outstanding options to be exchanged for cash upon the completion of the Merger;

incur or assume any indebtedness for borrowed money or guarantee any indebtedness for borrowed money, or enter into a keep well or similar agreement or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of Ionics or any of its subsidiaries, except for, among other things, borrowings in the ordinary course of business under existing credit agreements;

sell, transfer, lease, license, mortgage, encumber or otherwise dispose of (or voluntarily permit to become subject to any lien (including pursuant to a sale-leaseback transaction or an asset securitization transaction)) any of Ionics material properties or assets (including securities of its subsidiaries) to any person;

make any capital expenditures, except in the ordinary course of business consistent with past practice and in compliance with the Credit Agreement dated as of February 13, 2004 between Ionics and the parties thereto (the Credit Agreement );

make any acquisition (by purchase of securities or assets, merger or consolidation, or otherwise) of any other entity, business or division;

make any investment (by contribution to capital, property transfers, purchase of securities or otherwise) in, or loan or advance (other than travel and similar advances to Ionics employees in the ordinary course of business consistent with past practice) to, any entity other than a wholly-owned subsidiary and other than investments, loans or advances required by certain contracts existing as of November 24, 2004 and consumer finance-related loans for the purchase of home water treatment equipment and other related equipment not exceeding \$40 million in the aggregate outstanding at any one time;

enter into, terminate or amend (1) certain build-own-operate or operation and maintenance agreements (other than in the ordinary course of business consistent with past practice), (2) any joint venture agreement or (3) certain material contracts;

enter into any other material contract;

terminate or amend the Stockholders Agreement or Escrow Agreement each dated February 13, 2004 among Ionics and the parties thereto;

enter into or extend the term or scope of any contract that restricts Ionics or any of its subsidiaries or affiliates from engaging in any line of business or in any geographic area;

amend or modify the engagement letters with Goldman Sachs and UBS;

enter into any contract that would be breached by, or require the consent of any party to continue in full force following, the completion of the Merger;

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release any person from, modify or waive any provision of any confidentiality, standstill or similar agreement;

take any action to render certain state anti-takeover statutes inapplicable to any transaction (other than the Merger) or any person (other than GE or Merger Sub);

except as required by the Merger Agreement, amend or modify the Renewed Rights Plan;

seek or obtain any waiver or modification of Section 6.10 of the Credit Agreement;

enter into any sales representative or distribution contract with respect to sales outside North America which is not terminable within one year of November 24, 2004;

increase the compensation of any Ionics director, officer or employee;

enter into, establish, amend, modify or terminate any employment, consulting, retention, change in control, collective bargaining, bonus or other incentive compensation, profit sharing, health or other welfare, stock option or other equity, pension, retirement, vacation, severance, deferred compensation or other compensation or benefit plan, policy, agreement, trust, fund or arrangement with, for or in respect of, any stockholder, director, officer, other employee, consultant or affiliate;

make, change or revoke any material election concerning taxes or tax returns, file any amended tax return, enter into any closing agreement with respect to taxes, settle any material tax claim or assessment or surrender any right to claim a refund of taxes or obtain any tax ruling;

make any changes (other than immaterial changes made in the ordinary course of business) in financial or tax accounting methods, principles, policies or practices or change an annual accounting period, except insofar as may be required by generally accepted accounting principles or applicable law or in connection with Ionics' efforts to enhance its and its subsidiaries' internal controls over financial reporting;

amend Ionics' charter documents or the charter documents of Ionics' subsidiaries;

adopt a plan or agreement of complete or partial liquidation, dissolution, restructuring, recapitalization, merger, consolidation or other reorganization;

pay, discharge, settle or satisfy any claims, liabilities or obligations, other than the payment, discharge, settlement or satisfaction in accordance with their terms;

settle or compromise any litigation or proceeding in which Ionics or any of its subsidiaries is a defendant that is material to Ionics and its subsidiaries taken as a whole, other than the class action lawsuit titled *Deckler v. Ionics, et. al.*, which may be settled in accordance with the Memorandum of Understanding dated July 29, 2004; or

agree, in writing or otherwise, to take any of the foregoing actions or take any action or agree, in writing or otherwise, to take any action, which would cause any of the conditions to the Merger not to be satisfied.

The covenants in the Merger Agreement relating to the conduct of Ionics' business are complicated and not easily summarized. You are urged to read carefully and in its entirety the section of the Merger Agreement entitled "Conduct of Business of the Company" in Annex A to this Proxy Statement.

***Employee Benefits***

GE has agreed in the Merger Agreement to cause Ionics (as its wholly-owned subsidiary after the Merger) to provide Ionics' employees, for a period of at least one year following the closing of the Merger, with pay and benefits, other than Ionics' stock option or stock purchase plans, that are substantially comparable in the aggregate to those provided by Ionics to its employees as of November 24, 2004. Ionics' employees will also be provided credit for prior service under applicable employee benefit plans. GE has

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also agreed that it will, or it will cause Ionics (as its wholly-owned subsidiary after the Merger) to, assume the obligations under specified existing employment and severance agreements.

***Other Covenants***

The Merger Agreement contains a number of other covenants, including covenants relating to:

preparation of this Proxy Statement and holding of the Special Meeting;

recommendation by Ionics' board of directors that its stockholders approve the Merger Agreement;

use of reasonable best efforts to consummate the Merger as promptly as practicable, including reasonable best efforts to obtain regulatory clearance and, in connection therewith, to vigorously defend any challenge by regulatory authorities to the completion of the Merger;

compliance with Section 404 of the Sarbanes-Oxley Act of 2002;

public announcements;

access to information;

notification of communications from governmental authorities or claims relating to the Merger or breaches of representations and warranties, breaches of covenants and certain other matters;

indemnification and insurance;

securityholder litigation;

environmental matters; and

registration of transfers of stock certificates for shares of Ionics common stock held by certain stockholders party to the Voting Agreement.

**No-Shop Provisions**

Ionics has agreed, prior to the Merger becoming effective, to certain limitations on Ionics' ability to take action with respect to other potential acquisition transactions. Ionics has agreed to terminate any discussions or negotiations with any person with respect to a Takeover Proposal (as defined below). In addition, except as set forth below, Ionics has agreed to not directly or indirectly:

solicit, initiate or knowingly facilitate or encourage (including by way of furnishing information) any inquiries or proposals that constitute, or may reasonably be expected to lead to, any Takeover Proposal;

participate in any discussions or negotiations with any third party regarding any Takeover Proposal;

enter into any agreement related to any Takeover Proposal;

withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to GE, the board of directors' recommendation that Ionics' stockholders approve the Merger Agreement;

approve or recommend, or propose publicly to approve or recommend, any Takeover Proposal; or

approve or recommend or propose publicly to approve or recommend, or cause or authorize Ionics or any of its subsidiaries to enter into any letter of intent, agreement in principle, memorandum of understanding, merger, acquisition, purchase or joint venture agreement or other agreement related to any Takeover Proposal.

Notwithstanding these Limitations:

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if after November 24, 2004, Ionics board of directors receives an unsolicited, bona fide written Takeover Proposal that was made after November 24, 2004 in circumstances not involving a breach of the Merger Agreement and the board of directors determines in good faith that such Takeover



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Proposal is reasonably likely to result in a Superior Proposal (as defined below) and with respect to which the board determines in good faith, after considering applicable provisions of state law and after consulting with and receiving the advice of outside counsel, that the failure to take such action would be inconsistent with its fiduciary duties to Ionics stockholders under Massachusetts law, then Ionics may (but only prior to obtaining stockholder approval of the Merger), after providing GE not less than 24 hours written notice of Ionics intention to take such actions: (1) furnish information to the person making such Takeover Proposal, but only after such person enters into a customary confidentiality agreement with Ionics that is no less favorable in any material respect to Ionics than its confidentiality agreement with GE, (2) participate in discussions and negotiations with such person regarding such Takeover Proposal and (3) enter into the confidentiality agreement contemplated by (1) above;

Ionics board of directors may withdraw or modify its recommendation that its stockholders approve the Merger Agreement, or recommend a Takeover Proposal, if the board determines in good faith, after reviewing applicable provisions of Massachusetts law and after consulting with and receiving advice from outside counsel, that the failure to make such withdrawal, modification or recommendation would be inconsistent with its fiduciary duties to Ionics stockholders under Massachusetts law; and

if Ionics board of directors receives an unsolicited, bona fide written Takeover Proposal that was made in circumstances not involving a breach of the Merger Agreement and that the board determines in good faith constitutes a Superior Proposal, the board of directors may, in response to such Superior Proposal and within a set timeframe, cause Ionics to enter into a definitive agreement with respect to such Superior Proposal; however, in such circumstances, Ionics would be required to pay a \$33,000,000 termination fee to GE as described below under Merger Agreement and Other Related Agreements Fees and Expenses.

Prior to responding to an unsolicited Takeover Proposal, Ionics must give GE notice of the Takeover Proposal. Ionics must also provide GE with copies of any written materials received from or on behalf of the person making the Takeover Proposal and shall keep GE fully informed of all material developments regarding the Takeover Proposal. Ionics must furnish GE with simultaneous copies of any non-public information that Ionics provides to the person that made such unsolicited Takeover Proposal.

Under the Merger Agreement, Takeover Proposal means any inquiry, proposal or offer from anyone (other than GE and its subsidiaries) or any group relating to any:

direct or indirect acquisition (whether in a single transaction or a series of related transactions) of Ionics assets and those of its subsidiaries equal to 15% or more of Ionics consolidated assets or to which 15% or more of Ionics consolidated revenues on a consolidated basis for the then preceding four completed and publicly reported calendar quarters are attributable;

direct or indirect acquisition (whether in a single transaction or a series of related transactions) of 15% or more of any class of Ionics equity securities;

tender offer or exchange offer that if completed would result in any person or group beneficially owning 15% or more of any class of Ionics equity securities; or

merger, consolidation, share exchange, business combination, recapitalization, liquidation, or similar transaction involving Ionics or any of its subsidiaries.

Under the Merger Agreement, Superior Proposal means a Takeover Proposal to acquire, directly or indirectly, for consideration consisting of cash and/or securities, all of Ionics equity securities or all or substantially all of Ionics assets and those of its subsidiaries on a consolidated basis, made by a third party, which is not subject to a financing contingency and which is otherwise on terms and conditions which Ionics board of directors determines in its good faith judgment (after consultation with a financial advisor of national reputation) to be more favorable to Ionics stockholders from a financial point of view than the Merger, taking into account at the time of determination any changes to the Merger Agreement

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proposed by GE in writing and the ability of the entity making such proposal to complete the transactions contemplated by such proposal (based upon, among other things, the availability of financing and the expectation of obtaining required approvals).

**Conditions to Closing**

The parties' obligations to complete the Merger are subject to the following conditions:

the approval of the Merger Agreement by the requisite vote of Ionics' stockholders;

the expiration or termination of the waiting period under the HSR Act, the expiration or termination of any applicable waiting periods under foreign antitrust laws and the receipt of any required foreign antitrust approvals; and

no law, injunction, judgment or ruling shall have been enacted or shall be in effect that enjoins, restrains, prevents or prohibits the completion of the Merger or makes the completion of the Merger illegal.

GE's and Merger Subsidiaries' obligations to complete the Merger are also subject to the following conditions:

Ionics' representations and warranties must be true and correct as of the date of the Merger Agreement and the date of the closing of the Merger, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Ionics, and its representation regarding capitalization must be true, except for immaterial inaccuracies, as of the date of the Merger Agreement and the Closing Date;

Ionics must have performed in all material respects all of its obligations under the Merger Agreement;

since the date of the Merger Agreement, there must not have been any material adverse effect on Ionics;

there must not be any action, investigation, proceeding or litigation pending or threatened by any governmental entity, nor any law, injunction, judgment or ruling in effect, that would be reasonably likely to (1) restrain, enjoin, prevent, prohibit or make illegal the acquisition of some or all of Ionics' shares by GE or Merger Subsidiary or the completion of the Merger, (2) impose limitations on the ability of GE to effectively exercise full rights of ownership of Ionics or (3) result in a governmental investigation for the purpose of imposing criminal sanctions or result in certain damages on GE or the surviving corporation in the Merger;

appraisal rights shall not have been exercised by Ionics' stockholders with respect to more than five percent of the issued and outstanding shares of Ionics common stock immediately prior to the Closing Date; and

since the date of the Merger Agreement, neither Ionics' Chief Executive Officer nor its Chief Financial Officer shall have failed to provide the necessary certifications under the Sarbanes-Oxley Act of 2002.

The Merger Agreement provides that a material adverse effect on Ionics means any change, event, occurrence or state of facts which has had, or would reasonably be expected to have, a material adverse effect on the business, properties, assets, liabilities, results of operations or condition of Ionics and its subsidiaries taken as a whole; provided that none of the following shall be taken into account in determining whether there has been or would reasonably be expected to be a material adverse effect:

any change, event, occurrence or state of facts relating to the U.S. or global economy, financial markets or political conditions in general or any of the industries in which Ionics operates in general, including such changes thereto as are caused by terrorist activities, entry into or material

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worsening of war or armed hostilities, or other national or international calamity (in each case to the extent not disproportionately affecting Ionics and its subsidiaries taken as a whole);

any change, event, occurrence or state of facts that directly arises out of or results from the announcement or pendency of the Merger Agreement or any of the transactions contemplated thereunder;

any change, event, occurrence or state of facts directly arising out of or resulting from any action taken, or failure to take an action, by Ionics or its subsidiaries with GE's express written consent or in accordance with the express written instructions of GE or as otherwise expressly required or specifically permitted to be taken by Ionics or its subsidiaries pursuant to the terms of the Merger Agreement;

any change in Ionics' stock price or trading volume or any failure to meet internal projections or forecasts or published revenue or earnings projections of industry analysts; and

any change, event, occurrence or state of facts arising out of any change in GAAP or applicable accounting requirements or principles which occur or become effective after November 24, 2004.

A material adverse effect on Ionics shall be deemed to have occurred if, and only if, the applicable change, event, occurrence or state of facts (or aggregation of changes, events, occurrences or state of facts) has resulted in or would reasonably be expected to result in liability to GE or its subsidiaries (including Ionics or its subsidiaries) or Ionics' diminution in value (including Ionics' subsidiaries), however arising, of \$110,000,000 or more in the aggregate.

Ionics' obligation to complete the Merger is also subject to the following conditions:

GE's and Merger Sub's representations and warranties must be true and correct as of the date of the Merger Agreement and as of the Closing Date, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on GE's ability to complete the Merger; and

GE and Merger Sub must have performed in all material respects all of their respective obligations under the Merger Agreement.

**Termination**

The Merger Agreement may be terminated at any time prior to the closing of the Merger:

by mutual written consent of Ionics and GE;

by either Ionics or GE if:

the Merger is not completed by August 1, 2005; provided a party may not so terminate the Merger Agreement if the Merger shall not have been completed primarily due to a party's breach or failure to perform any of its representations, warranties, covenants or agreements under the Merger Agreement;

any law, injunction, judgment or ruling shall have been enacted and shall have become final and nonappealable that enjoins, restrains, prevents or prohibits the completion of the Merger or makes the completion of the Merger illegal; provided that a party may not so terminate the Merger Agreement if such restraint was primarily due to the failure of such party to perform any of its representations, warranties, covenants or agreements under the Merger Agreement;

the required vote of Ionics' stockholders is not obtained to approve the Merger Agreement at a meeting of its stockholders duly convened therefor or at any adjournment thereof;

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by GE if:

Ionics breaches a representation, warranty, covenant or agreement in the Merger Agreement, or any representation or warranty shall have become untrue, subject to specified materiality thresholds and Ionics' ability to cure such breach;

any law, injunction, judgment or ruling shall have been enacted and shall have become final and nonappealable that (1) restrains, enjoins, prevents, prohibits or makes illegal the acquisition of some or all of Ionics' shares by GE or Merger Sub or the completion of the Merger, (2) imposes limitations on the ability of GE to effectively exercise full rights of ownership of Ionics or (3) results in a governmental investigation for the purpose of imposing criminal sanctions or results in certain damages on GE or the surviving corporation in the Merger;

Ionics enters into an agreement relating to a Takeover Proposal, or Ionics' board of directors (1) shall have withdrawn or modified, in a manner adverse to GE, its recommendation that its stockholders approve the Merger Agreement or its approval of the Merger, (2) shall have approved or recommended to its stockholders a Takeover Proposal or (3) shall not have rejected any bona fide written or publicly announced offer for a Takeover Proposal within 10 days of the making thereof;

by Ionics if:

GE breaches a representation, warranty, covenant or agreement in the Merger Agreement, or any of its representations or warranties shall have become untrue, subject to specified materiality thresholds and GE's ability to cure such breach; and

(1) Ionics has not breached its non-solicitation covenant (other than immaterial breaches that have not directly or indirectly resulted in the making of a Takeover Proposal), (2) Ionics' stockholders have not approved the Merger Agreement and (3) concurrently Ionics enters into a definitive agreement providing for a Superior Proposal; provided that Ionics pays the termination fee described below to GE.

**Fees and Expenses**

Pursuant to the Merger Agreement, whether or not the Merger is completed, all fees and expenses incurred in connection with the Merger Agreement, the Voting Agreement, the Merger or the transactions related thereto shall be paid by the party incurring such fees or expenses, other than filing fees relating to anti-trust filings with governmental authorities, which shall be paid entirely by GE. However, Ionics must pay to GE an amount equal to \$33,000,000 if the Merger Agreement is terminated for any of the following reasons:

(1)(a) the Merger is not completed by August 1, 2005 (and at the time of such termination the stockholder meeting to approve the Merger has not been held), (b) the required vote of Ionics' stockholders is not obtained to approve the Merger Agreement at a meeting of its stockholders duly convened therefor or at any adjournment thereof or (c) Ionics breaches a representation, warranty, covenant or agreement in the Merger Agreement, or any representation or warranty shall have become untrue so that a closing condition is not satisfied, (2) prior to such termination, any person or group shall have made or publicly announced an intention to make a Takeover Proposal and (3) Ionics enters into a definitive agreement with respect to, or consummates a transaction contemplated by, any Takeover Proposal within twelve months of the date the Merger Agreement is terminated;

Ionics enters into an agreement relating to a Takeover Proposal, or Ionics' board of directors (1) shall have withdrawn or modified, in a manner adverse to GE, its recommendation that its stockholders approve the Merger Agreement or its approval of the Merger, (2) shall have approved or recommended to its stockholders a Takeover Proposal or (3) shall not have rejected any bona

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vide written or publicly announced offer for a Takeover Proposal within 10 days of the making thereof; or

(1) Ionics has not breached its non-solicitation covenant (other than immaterial breaches that have not directly or indirectly resulted in the making of a Takeover Proposal), (2) Ionics stockholders have not approved the Merger Agreement and (3) concurrently Ionics enters into a definitive agreement providing for a Superior Proposal.

**Voting Agreement**

In connection with the execution of the Merger Agreement and with the consent of Ionics board of directors (which was required pursuant to that certain Stockholders Agreement dated as of February 13, 2004 by and among Ionics and the Ecolochem Holders), GE and the Ecolochem Holders (who collectively own a total of 4,402,646 shares of Ionics common stock, or approximately 19.2% of the outstanding shares of Ionics common stock) entered into a Voting Agreement dated as of November 24, 2004 (the Voting Agreement ) pursuant to which the Ecolochem Holders:

agreed to vote their shares of Ionics common stock (a) in favor of the approval of the Merger Agreement and the transactions contemplated thereunder, (b) against any action or agreement that would result in a breach of any representation, warranty, covenant or other obligation of Ionics in the Merger Agreement, (c) against any other merger agreement or merger, consolidation, combination, sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of Ionics or any other Takeover Proposal and (d) against any agreement, amendment of Ionics articles of organization or bylaws or other action that could be reasonably expected to prevent, impede, interfere with, delay, postpone or discourage the consummation of the Merger;

appointed, to secure the performance by the Ecolochem Holders of the Voting Agreement, GE and its designees as the Ecolochem Holders proxy and attorney-in-fact to vote their shares of Ionics common stock (a) in favor of the approval of the Merger Agreement and the approval of the transactions contemplated thereunder, (b) against any action or agreement that would result in a breach of any representation, warranty, covenant, agreement or other obligation of Ionics under the Merger Agreement, (c) against any Takeover Proposal and (d) against any agreement, amendment of Ionics articles of organization or bylaws or other action that is intended or could reasonably be expected to prevent, impede, interfere with, delay, postpone or discourage the consummation of the Merger;

agreed not to (a) other than pursuant to the Merger, sell, transfer (including by operation of law), give, pledge, encumber, assign or otherwise dispose of (collectively, Transfer ), or enter into any contract, option or other arrangement (including any profit sharing arrangement) or understanding with respect to the Transfer of, any shares of Ionics common stock owned by any Ecolochem Holder (or any interest therein), (ii) deposit any shares of Ionics common stock owned by any Ecolochem Holder into a voting trust or grant any proxies or enter into a voting agreement, power of attorney or voting trust with respect to any shares of Ionics common stock owned by an Ecolochem Holder, (iii) commit to do any of the foregoing or (iv) take any action that would make any representation or warranty of an Ecolochem Holder set forth in the Voting Agreement untrue or incorrect in any material respect or have the effect of preventing, disabling or delaying an Ecolochem Holder from performing any of its obligations under the Voting Agreement, subject to certain exceptions;

agreed to certain limitations on the solicitation of Takeover Proposals;

consented to and approved the actions taken by Ionics board of directors to approve the Merger Agreement, the transactions related thereto and the Voting Agreement;

waived and agreed not to exercise or assert any appraisal or similar rights, if any, in connection with the Merger; and

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made certain representations and warranties.

In the Voting Agreement, GE:

made certain representations and warranties; and

agreed that after the completion of the Merger, it would amend the definition of the Cut-Off Time as used in the Escrow Agreement, such that the Cut-Off Time shall become the effective time of the completion of the Merger. While Ionics could still make indemnification claims against the Ecolochem Holders, the effect of this amendment would be to shorten the deadline for Ionics to recover for such claims from the Escrowed Funds from February 13, 2006 to the effective time of the completion of the Merger. Mr. Lyman Dickerson, a director and executive officer of Ionics, and persons related to him beneficially own the cash and shares of Ionics common stock held in escrow and may be deemed to benefit from shortening the deadline for recovery of indemnification claims from the escrowed amounts and the resulting release of the cash and Ionics common stock from escrow.

A copy of the Voting Agreement is attached as Annex C to this Proxy Statement.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists as of February 16, 2004, except for information regarding General Electric Company and the Dickerson trusts which is updated as of December 3, 2004, 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 and the percentage ownership of such class, based on a total of 22,974,248 shares of Ionics common stock outstanding as of January 3, 2005:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
General Electric Company 3135 Easton Turnpike Fairfield, CT 06828-0001	4,402,648(1)	19.2%
FMR Corporation Edward C. Johnson, III(2) Abigail P. Johnson(2) 82 Devonshire Street Boston, MA 02109	2,480,100(3)	10.8%
Lyman B. Dickerson Lyman Dickerson Irrevocable Trust, Dated July 1, 1991 Lyman B. Dickerson Revocable Trust, Dated September 9, 1996 Lyman B. Dickerson Qualified Grantor Retained Annuity Trust #1 Lyman Dickerson Irrevocable Trust FBO Preston G. Dickerson Lyman Dickerson Irrevocable Trust FBO Lily J. Dickerson 2855 NW 75th Avenue Miami, FL 33122	2,452,830(4)	10.7%
T. Rowe Price Associates, Inc. T. Rowe Price Small-Cap Stock Fund, Inc. 100 East Pratt Street Baltimore, MD 21202	2,289,900(5)	10.0%
Douglas G. Dickerson	1,949,818(6)	8.5%

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Douglas G. Dickerson Revocable Trust, Dated June 22, 1988 Douglas Dickerson Irrevocable Trust No. 3 Dated July 1, 1991 Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #1 Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #2 Douglas Dickerson Irrevocable Trust No. 3 FBO Meredith D. Walthall Douglas Dickerson Irrevocable Trust No. 3 FBO Paige L. Dickerson Douglas Dickerson Irrevocable Trust No. 3 FBO Douglas G. Dickerson Richard Dickerson Revocable Trust Dated March 5, 1993 Richard Dickerson Irrevocable Trust No. 3 Dated July 1, 1991 Richard Dickerson Irrevocable Trust No. 3 FBO Courtney B. Dickerson Richard Dickerson Irrevocable Trust No. 3 FBO Andrew G. Dickerson Richard Dickerson Irrevocable Trust No. 3 FBO Ryan C. Dickerson Richard Dickerson Irrevocable Trust No. 3 FBO Kimberly D. Nikki Richard Dickerson Irrevocable Trust No. 3 FBO Richard C. Dickerson, Jr. 1204 Kamichi Court Virginia Beach, VA 23451	1,404,600(7)	6.1%
Advisory Research, Inc. 180 North Stetson Street, Suite 5780 Chicago, IL 60601	1,223,595(8)	5.3%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90801		

- (1) Includes all shares of Ionics common stock owned by the Dickerson family trusts as described in footnotes (4) and (6) below. Pursuant to the Voting Agreement, the Dickerson family trusts appointed GE and its designees as their proxy and attorney-in-fact to vote shares of Ionics common stock held by such trusts (a) in favor of the approval of the Merger Agreement and the approval of the transactions contemplated thereunder, (b) against any action or agreement that would result in a breach of any representation, warranty, covenant, agreement or other obligation of Ionics under the Merger Agreement, (c) against any Takeover Proposal and (d) against any agreement, amendment of Ionics articles of organization or bylaws or other action that is intended or could reasonably be expected to prevent, impede, interfere with, delay, postpone or discourage the consummation of the Merger. As a result, GE may be deemed to beneficially own the shares owned by the Dickerson family trusts. GE has no power to direct the disposition of and has no pecuniary interest in these shares.

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- (2) Edward C. Johnson, III, is Chairman of FMR Corporation and owns 12% of its aggregate outstanding voting stock. Abigail P. Johnson is a director of FMR Corporation and owns 24.5% of its aggregate outstanding voting stock. The Johnson family may be deemed to form a controlling group with respect to FMR Corporation.
- (3) Includes 1,064,700 shares of Ionics common stock held by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corporation, as a result of acting as an investment adviser to various investment companies. Mr. Johnson and FMR Corporation each has sole dispositive power over these 1,064,700 shares; however neither of them has sole power to vote these shares, which resides with the boards of trustees of the investment companies. Also includes 828,900 shares of Common Stock beneficially owned by Fidelity Management Trust Company, a wholly-owned subsidiary of FMR Corporation, as a result of its service as investment manager for certain institutional accounts. Mr. Johnson and FMR Corp each has sole dispositive and voting power over these 828,900 shares. Also includes 586,500 shares beneficially owned by Fidelity International Limited ( FIL ). FIL has sole dispositive and voting power over these 586,500 shares. Although a partnership controlled by the Johnson family owns 39.89% of the voting stock of FIL, FMR Corporation and FIL have indicated on Amendment No. 2 to Schedule 13G filed with the SEC on February 16, 2004 that they are not acting as a group for the purposes of Section 13(d) under the Securities Exchange Act of 1934, as amended, and that they are not required to attribute to each other the beneficial ownership of securities beneficially owned by the other entity. However, FMR Corporation has voluntarily included the shares held by FIL for purposes of such Schedule 13G filing as if they were beneficially owned by FMR Corporation.
- (4) Includes 1,946,926 shares of Ionics common stock held by The Lyman B. Dickerson Qualified Grantor Retained Annuity Trust #1, 216,324 shares held by The Lyman B. Dickerson Revocable Trust dated September 9, 1996, 130,311 shares held by The Lyman Dickerson Irrevocable Trust FBO Preston G. Dickerson, 130,311 shares held by The Lyman Dickerson Irrevocable Trust FBO Lily J. Dickerson and 28,958 shares held by The Lyman Dickerson Irrevocable Trust dated July 1, 1991. Lyman B. Dickerson is the sole Trustee of The Lyman B. Dickerson Qualified Grantor Retained Annuity Trust #1 and The Lyman Dickerson Revocable Trust dated September 9, 1996 and has sole voting and sole dispositive power over the shares held by each trust. Lyman B. Dickerson has no voting power and shared dispositive power over the shares held by The Lyman Dickerson Irrevocable Trust FBO Preston G. Dickerson, The Lyman Dickerson Irrevocable Trust FBO Lily J. Dickerson and the Lyman Dickerson Irrevocable Trust dated July 1, 1991. The independent trustee of the Lyman Dickerson Irrevocable Trusts, Charles C. Kline, has sole voting power and shared dispositive power as to all shares held by The Lyman Dickerson Irrevocable Trust FBO Preston G. Dickerson, The Lyman Dickerson Irrevocable Trust FBO Lily J. Dickerson and The Lyman Dickerson Irrevocable Trust dated July 1, 1991.
- (5) Includes sole voting power as to 350,200 shares of Ionics common stock and sole dispositive power as to all 2,289,900 shares. T. Rowe Price Associates, Inc. has no shared voting power or shared dispositive power as to any of these shares. T. Rowe Price Small-Cap Stock Fund, Inc. has sole voting power as to 1,150,000 shares and has no shared voting power, sole dispositive power or shared dispositive power as to any of these shares.
- (6) Includes 183,163 shares of Ionics common stock held by The Douglas G. Dickerson Revocable Trust dated June 22, 1988, 14,479 shares held by The Douglas Dickerson Irrevocable Trust No. 3 dated July 1, 1991, 338,324 shares held by the Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #1, 338,324 shares held by the Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #2, 33,540 shares held by The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Meredith D. Walthall, 33,540 shares held by The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Paige L. Dickerson, 33,539 shares held by The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Douglas G Dickerson, II, 20,124 shares held by The Richard Dickerson Irrevocable Trust No. 3 f/b/o Courtney B. Dickerson, 20,124 shares held by The Richard Dickerson Irrevocable Trust No. 3 f/b/o Andrew G. Dickerson, 20,124 shares held by The Richard Dickerson Irrevocable Trust No. 3 f/b/o Ryan C. Dickerson, 20,124 shares held by The Richard Dickerson Irrevocable Trust No. 3 f/b/o Kimberly D.



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Nikki, 20,123 shares held by The Richard Dickerson Irrevocable Trust No. 3 f/b/o Richard C. Dickerson, Jr., 14,479 shares held by The Richard Dickerson Irrevocable Trust No. 3 dated July 1, 1991 and 859,811 shares held by the Richard Dickerson Revocable Trust dated March 5, 1993. Mr. Douglas Dickerson has the sole voting and dispositive power as to the shares held by the Douglas G. Dickerson Revocable Trust dated June 22, 1988, The Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #1 and The Douglas G. Dickerson Qualified Grantor Retained Annuity Trust #2; has shared voting and dispositive power together with Marguerite W. Dickerson, co-trustee, as to the shares held by the Richard Dickerson Revocable Trust dated March 5, 1993; and has shared dispositive power together with Frederick T. Stant, III, independent trustee, as to the shares held by the Richard Dickerson Irrevocable Trust No. 3 dated July 1, 1991, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Meredith D. Walthall, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Paige L. Dickerson, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Douglas G Dickerson, II and the Douglas Dickerson Irrevocable Trust No. 3 dated July 1, 1991. Mr. Douglas Dickerson has no voting power with respect to any shares held by the Richard Dickerson Irrevocable Trust No. 3 dated July 1, 1991, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Meredith D. Walthall, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Paige L. Dickerson, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Douglas G Dickerson, II and the Douglas Dickerson Irrevocable Trust No. 3 dated July 1, 1991. Mr. Stant has sole voting power with respect to the shares held by the Richard Dickerson Irrevocable Trust No. 3 dated July 1, 1991, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Meredith D. Walthall, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Paige L. Dickerson, The Douglas Dickerson Irrevocable Trust No. 3 f/b/o Douglas G Dickerson, II and the Douglas Dickerson Irrevocable Trust No. 3 dated July 1, 1991.

- (7) Includes sole voting power and sole dispositive power as to all 1,404,600 shares of Ionics common stock. Advisory Research, Inc. has no shared voting power or shared dispositive power as to any of these shares.
- (8) Includes sole voting power and sole dispositive power as to all 1,223,595 shares of Ionics common stock. 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 January 26, 2005 the number of shares of Ionics common stock beneficially owned by each of the directors, the Chief Executive Officer and each of the four most highly compensated executive officers of Ionics, other than the Chief Executive Officer, who were serving as executive officers as of January 26, 2005, and all directors and executive officers of Ionics as a group and the percentage ownership of such class, based on a total of 22,974,248 shares of Ionics common stock outstanding as of January 3, 2005. 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	276,031(1)	1.2%
Stephen L. Brown	13,255(2)	*
Lyman B. Dickerson	2,452,830(3)	10.7%
Kathleen F. Feldstein	19,030(4)	*
William K. Reilly	12,770(5)	*
John J. Shields	25,750(6)	*
Frederick T. Stant, III	232,738(7)	1.0%
Robert H. Temkin		