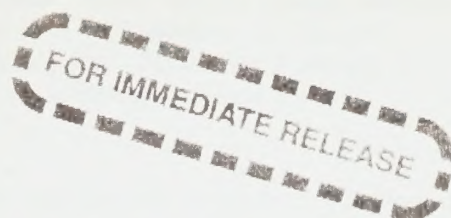


Alfred Baber Fonds

Correspondence

○
1988-1995

QUEEN'S UNIVERSITY ARCHIVES	
LOCATOR	5095.5
BOX	5
FILE	41



Osmonics, Inc. (NYSE/OSM)
Third Quarter Report

OSMONICS REVENUES UP 16% IN THIRD QUARTER 1995, NET INCOME UP 15%

In the third quarter ended September 30, 1995, Osmonics continued record sales, reaching \$27.2 million versus \$23.4 million for the same period last year. This 16% increase in revenue generated a 15% increase in net income which was \$2,625,000 (\$0.21 per share) for the third quarter 1995, compared to \$2,289,000 (\$0.18 per share) for the same quarter in 1994.

For the nine months ended September 30, 1995, sales were also a record \$80.8 million, an increase of 13% over sales of \$71.8 million for the first nine months last year. Net income for the nine months was \$8,096,000 (\$0.64 per share), up 13% over net income of \$7,163,000 (\$0.57 per share) for the same period in 1994.

The reported numbers do not include any sales or profits of Western Filter Company which was acquired October 4, 1995. These results will be included in fourth quarter financials. Western Filter represents an extension of our penetration into the beverage market and adds capabilities for the waste water treatment market. Western, founded in 1934, has been a key supplier of lime softening to virtually every major soft drink producer and has an excellent reputation for quality and innovative water purification systems.

Western Filter products will be sold through the existing Osmonics distribution channels, so we present a more complete line of pretreatment options for markets throughout the world.

The expansion of the Minnetonka facility is on schedule and should be completed by January 1996. This 130,000-square-foot addition will nearly double existing manufacturing space, allowing for the expansion of our cartridge filter and membrane separator products as well as machinery manufacturing.

For the third quarter, gross profit margins were down 2.6 percentage points from the same period last year due to increased price competition, the additional cost of some larger equipment that did not ship on schedule, and increased costs for raw materials that could not be passed on to the customers. On the positive side, it does appear that the significant cost increases in plastics and stainless steel seen earlier this year are subsiding and reductions from the peak prices are occurring.

In concert with our planned consolidation of some of the more recent acquisitions, selling and administration expenses have been reduced 2.3 percentage points from 25.1% of sales in the third quarter of 1994 to 22.8% of sales for the third quarter of 1995. This, coupled with a decrease in R&D expense as a ratio of sales to 7.4%, produced an operating



OSMONICS, INC.



Head Office
1000 West 10th Street
Edmonton, Alberta T6A 1P1

OSMONICS REPORTS 1987 FINANCIAL QUARTER 1987 NET INCOME UP 10%

In the third quarter ended September 30, 1987, Osmonics continued record sales totaling \$27.2 million versus \$25.4 million for the same period last year. The 1987 increase in revenue reflected a 12% increase in net product sales and \$2.7 million (10%) net sales for the third quarter 1987, compared to \$2.0 million for the same period in 1986.

For the nine month period September 30, 1987, sales were about \$82.3 million, an increase of 11% over sales of \$73.8 million for the last nine months last year. Net income for the nine months was \$10,800,000, 31% of net sales, up 11% over net income of \$9,700,000, 13% net sales, for the same period in 1986.

The record sales in the last quarter are due to growth in sales of Western Filter Division with its segment (October - 1987). These sales will be included in fourth quarter financials. Western Filter expansion on completion of our production line in the Pacific West and also expansion for the year ended December 31, 1987, is being funded in 1987. The total investment in this segment is roughly equal to that of the 1986 and has an excellent reputation for quality and customer value proposition system.

Western Filter products will be sold through the existing Osmonics distribution channels as we intend a more complete line of distribution options for market development in 1987.

The expansion of the Minnesota facility is on schedule and should be completed by January 1988. The 200,000 square foot addition will result in double existing manufacturing space. Allowance for expansion of our Chicago filter and chemical separator products is still an active consideration.

For the third quarter, gross profit margins were down 40 percentage points from the same period last year due to increased price competition. The additional cost of some input equipment that did not fit on schedule and increased cost for raw materials that could not be passed on to the customer. On the positive side, it does appear that the southern and western sales and studies yield year earlier than the 1986 and 1987 and reduction in the price of the product.

In concert with our planned consolidation of some of the more recent acquisitions, selling and administration expenses have been reduced 3.5 percentage points from 2.5% of sales in the third quarter of 1986 to 2.2% of sales for the third quarter of 1987. This equated with a decrease of 12% expense as a ratio of sales or 1.4% reduced in operating

Osmonics is a public company listed on the Toronto Stock Exchange under the symbol OSN.

income to sales of 12.1%, the same as third quarter last year. R&D should remain constant in absolute terms and drop as a percent of sales over the next few months, as the new Autotrol commercial/industrial controllers reach the marketplace. Initial field testing of these new controllers has been exceptional, and the tooling is being finalized for full production.

Strong double-digit growth is occurring in all of our replaceable products. Equipment also shows growth, but not as strong. The backlog of unfilled orders is up significantly, primarily due to equipment orders. Many of these orders are more complex and require engineering evaluation and drawing approval by the customer or their agent prior to final manufacturing, which can lengthen the process beyond initial expectations. Generally, our equipment and systems sales group tries to balance the complex orders with standardized systems, however, demand seems to be higher this year for more specialized equipment.

We remain generally optimistic for the remainder of this year and into the first half of next year.

D. Dean Spatz
Chairman & Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited - In thousands except per share amounts)

	Third Quarter Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1995	1994	1995	1994	1995	1994
Sales	\$27,176	\$25,383	\$80,842	\$71,760	\$106,262	\$94,518
Gross profit	11,484	10,499	35,354	31,893	46,800	42,290
Income from operations	3,282	2,874	10,203	9,326	13,562	11,817
Income before income taxes	3,806	3,070	11,676	9,775	15,524	12,648
Net income	2,625	2,289	8,096	7,162	10,868	9,386
Net income per common share	\$ 0.21	\$ 0.18	\$ 0.64	\$ 0.57	\$ 0.86	\$ 0.74
Average common shares outstanding	12,751	12,678	12,738	12,661	12,725	12,654

CONSOLIDATED BALANCE SHEET

(In Thousands)

ASSETS

	(Unaudited)	
	September 30, 1995	December 31, 1994
Current assets:		
Cash and cash equivalents	\$ 8,701	\$ 9,453
Marketable securities	28,925	27,623
Trade receivables, net	17,928	15,536
Inventories	22,431	19,428
Deferred tax assets	3,167	3,284
Other current assets	1,136	1,303
Total current assets	82,288	76,627
Property and equipment, net	28,276	22,563
Other assets	3,094	2,845
	\$113,658	\$102,035

LIABILITIES AND COMMON SHAREHOLDERS' EQUITY

	(Unaudited)	
	September 30, 1995	December 31, 1994
Current liabilities:		
Accounts payable	\$ 7,805	\$ 6,459
Current long-term debt and notes payable	1,693	744
Reserve for discontinued operations	1,958	2,088
Other accrued liabilities	10,385	11,341
Total current liabilities	21,841	20,632
Long-term debt	12,605	14,050
Other liabilities	679	689
Deferred income taxes	3,875	2,913
Common shareholders' equity	74,658	63,751
	\$113,658	\$102,035

Osmonics is a leading manufacturer and worldwide marketer of high technology water purification and fluid filtration, fluid separation, and fluid transfer equipment, as well as the replaceable components used in purification, filtration and separation equipment. These products are used by a broad range of industrial, commercial and institutional customers. Osmonics is traded on the New York Stock Exchange under the symbol OSM.

To obtain an Annual Report or additional information on the Company, please call 800/430-9950 and ask for our Investor Relations department.

fin/3qtrch

income to sales of 13.1%, the same as third quarter last year. R&D should remain constant in absolute terms and drop as a percent of sales over the next few months as the new Automotive commercial/industrial controllers reach the marketplace. Annual field testing of these new controllers has been exceptional and the coming a year is planned for full production.

Strong double-digit growth is occurring in all of our replicable products. Expansion also shows growth, but not as strong. The backlog of unfilled orders is up significantly. Many of these orders are more complex and require engineering evaluation and drawing approval by the customer or their agent prior to final manufacturing, which can lengthen the process beyond annual expectations. Maintaining our equipment and systems sales group tries to balance the complex orders with standardized systems, however demand seems to be higher this year for more specialized equipment.

We remain generally optimistic for the remainder of this year and into the first half of next year.

For more information, please contact:

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

	1997	1996	1995	1994
Sales	\$27,241	\$22,881	\$20,882	\$17,771
Cost of sales	(12,884)	(10,741)	(9,734)	(8,241)
Gross profit	14,357	12,140	11,148	9,530
Operating expenses	(1,085)	(1,015)	(1,125)	(1,178)
Operating income	13,272	11,125	10,023	8,352
Other income	2,123	1,171	1,144	1,141
Income before taxes	\$15,395	\$12,296	\$11,167	\$9,493
Income tax expense	(2,778)	(2,178)	(2,078)	(1,778)
Net income	\$12,617	\$10,118	\$9,089	\$7,715
Per share amounts:				
Basic	\$1.26	\$1.01	\$0.91	\$0.77
Diluted	\$1.23	\$0.98	\$0.88	\$0.74

CONSOLIDATED BALANCE SHEET

(In thousands)

	December 31, 1997	December 31, 1996
Current assets:		
Cash and cash equivalents	\$1,870	\$1,780
Accounts receivable	28,022	27,521
Inventory	1,728	1,738
Prepaid expenses	2,661	2,418
Other current assets	1,387	1,284
Total current assets	35,668	34,741
Current liabilities:		
Accounts payable	\$1,136	\$1,101
Accrued liabilities	20,288	19,442
Deferred income taxes	2,875	2,777
Current deferred income taxes	1,582	1,582
Total current liabilities	25,881	25,102
Non-current assets:		
Property, plant and equipment, net	\$10,122	\$10,122
Goodwill	1,278	1,278
Other non-current assets	1,122	1,122
Total non-current assets	\$12,522	\$12,522
Total assets	\$48,190	\$47,263
Current liabilities:		
Accounts payable	\$1,136	\$1,101
Accrued liabilities	20,288	19,442
Deferred income taxes	2,875	2,777
Current deferred income taxes	1,582	1,582
Total current liabilities	25,881	25,102
Non-current liabilities:		
Long-term debt	\$12,522	\$12,522
Other non-current liabilities	1,278	1,278
Total non-current liabilities	\$13,800	\$13,800
Total liabilities	\$39,681	\$38,902
Shareholders' equity:		
Common stock, \$1.00 par value	\$10,000	\$10,000
Retained earnings	38,190	37,263
Total shareholders' equity	\$48,190	\$47,263

There is a general increase in sales volume and revenue growth in all replicable products. Expansion also shows growth, but not as strong. The backlog of unfilled orders is up significantly. Many of these orders are more complex and require engineering evaluation and drawing approval by the customer or their agent prior to final manufacturing, which can lengthen the process beyond annual expectations. Maintaining our equipment and systems sales group tries to balance the complex orders with standardized systems, however demand seems to be higher this year for more specialized equipment.

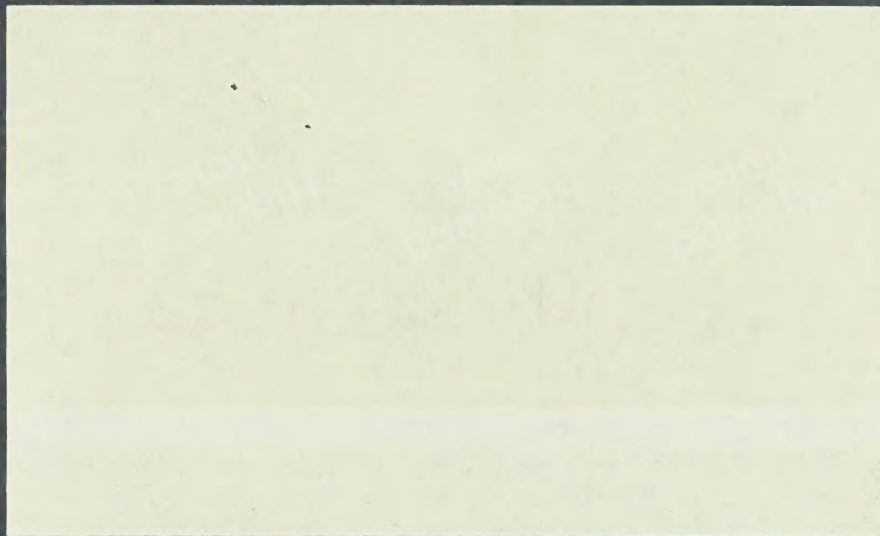
We remain generally optimistic for the remainder of this year and into the first half of next year.

For more information, please contact:

Larry Oseman .

Tel 714 824 7156

714 824 3866



Dr. Alfred Bader
2961 North Shepard Avenue
Milwaukee, Wisconsin 53211

By fax

714 824 3866

A Chemist Helping Chemists

To Professor Larry Overman

Dear Professor Overman

Bob Wauden at Aldrich has been in touch with you about samples for the Library of Rare Chemicals.

Bob is doing a fine job. You can trust him completely, and he is most likeable. I really enjoyed working with him and still talk to him often about acquiring samples for the Library.

If you have any questions please call or fax me:

Office Tel. 414 277 0730

fax 414 277 0709.

Best wishes

Alfred Bader

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TRANSACTION REPORT

FORM: WIRE TRANSFER - 10/1/81 4:4

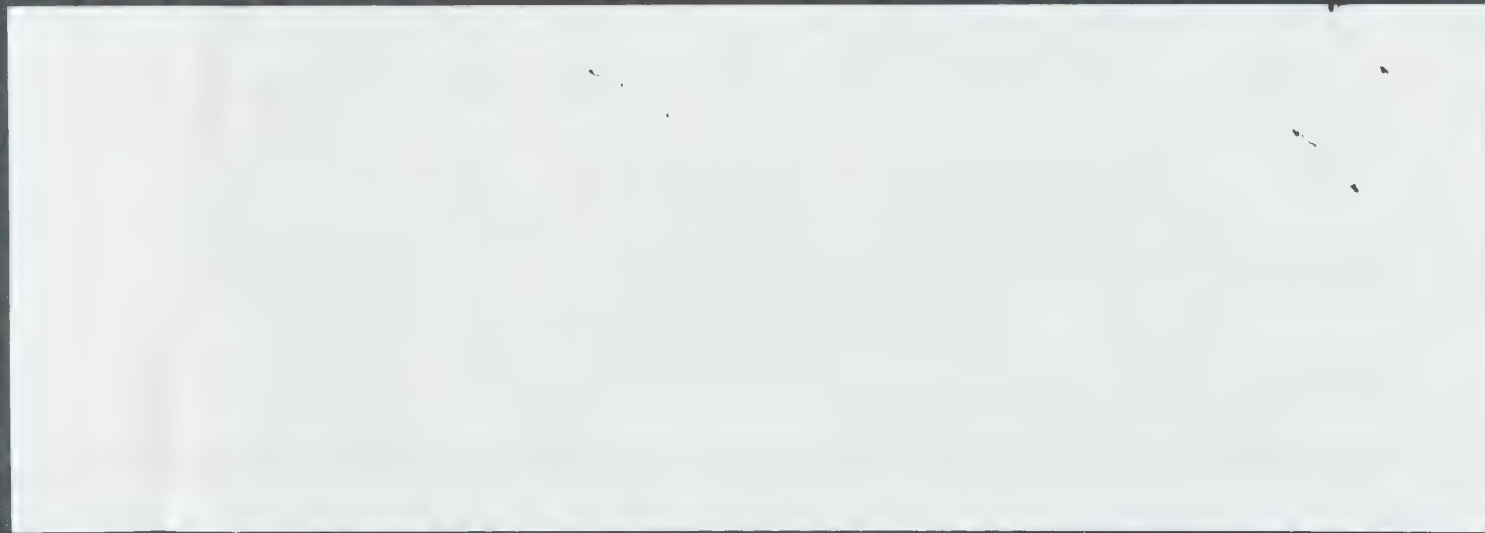
END

RECEIVED

AMOUNT

10/4/81

1





Overman Group University of California, Irvine

To:

Name: Dr. Alfred Bader

Department: _____

Company: _____

Phone: _____

Fax: 414-277-0709

Number of Pages Sent: 1 (includes cover page)

From: Professor Larry E. Overman
Department of Chemistry
University of California
Irvine, CA 92717-2025
Date: 9/28/95
Fax (714) 824-3866 or 824-2361
Phone (714) 824-7156

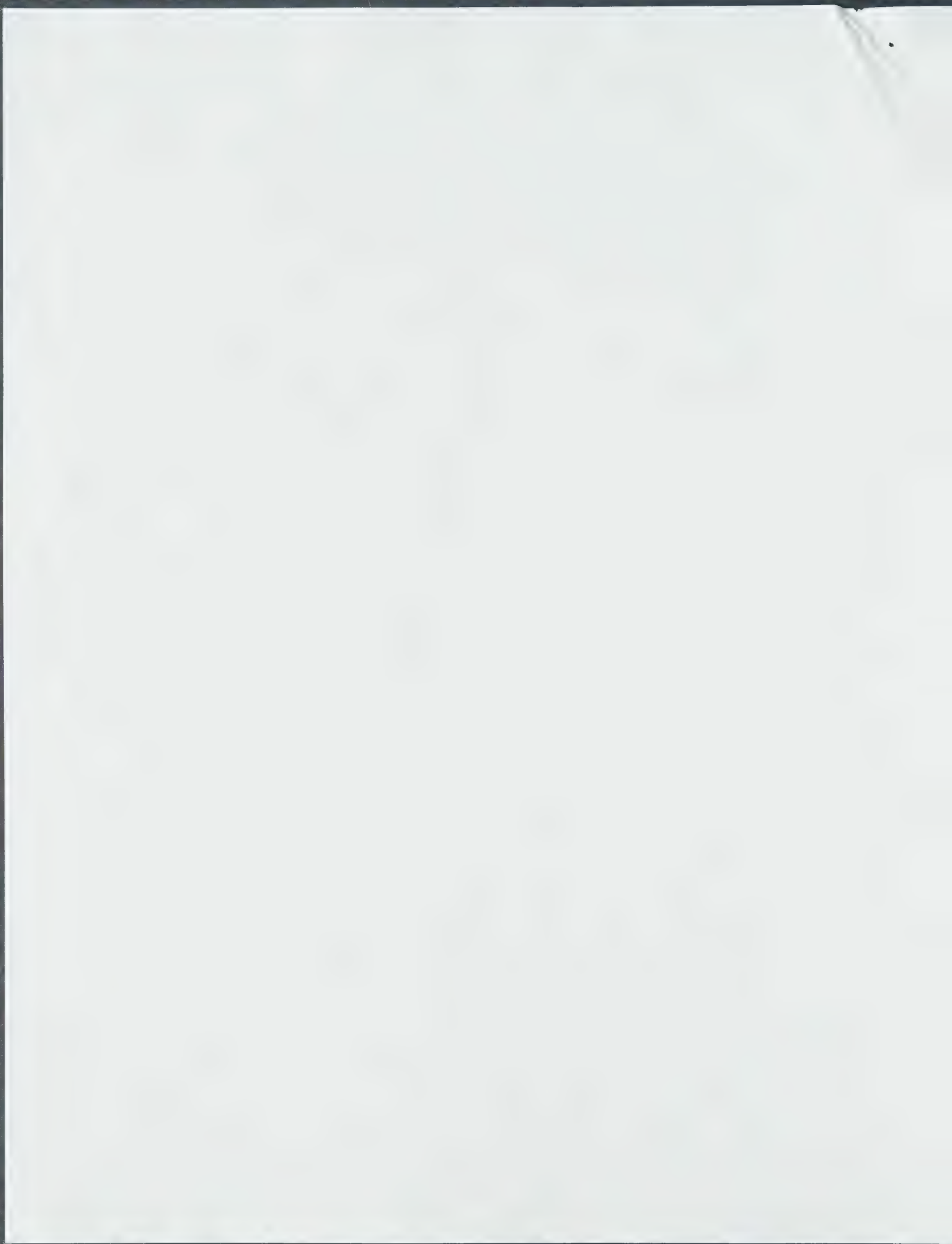
Comments: _____

Dear Alfred:

Thanks for your note of earlier today. I will look forward to meeting Bob Wandler next month.

Best wishes,

Larry





ALFRED BADER FINE ARTS

DR. ALFRED BADER

ESTABLISHED 1961

May 16, 1995

Dr. Philip Ottinger
Apt. 6
10356 Oxford Hill
St. Louis, MO 63146

Dear Dr. Ottinger:

I enjoyed chatting with you last Thursday and hope that you're amused by *Adventures of a Chemist Collector*.

Am I correct in thinking that Tom Cori is so arrogant that he would never look at it?

I have had a chance to get Richard Pariza's CV, and this is enclosed.

I am not certain that the ideal position for Dr. Pariza would be as head of Sheboygan production. He does have a lot of experience in production but also knows the fine chemical business very well indeed. The Willowbrook Laboratories which he started in 1969 was a very good, little operation, adding many interesting research compounds to their line. Unfortunately, he was very ill-advised by investors, who pushed him too hard too fast. Willowbrook actually rented the original Schlitz plant, which we then purchased and which is now the core of our Sheboygan operation.

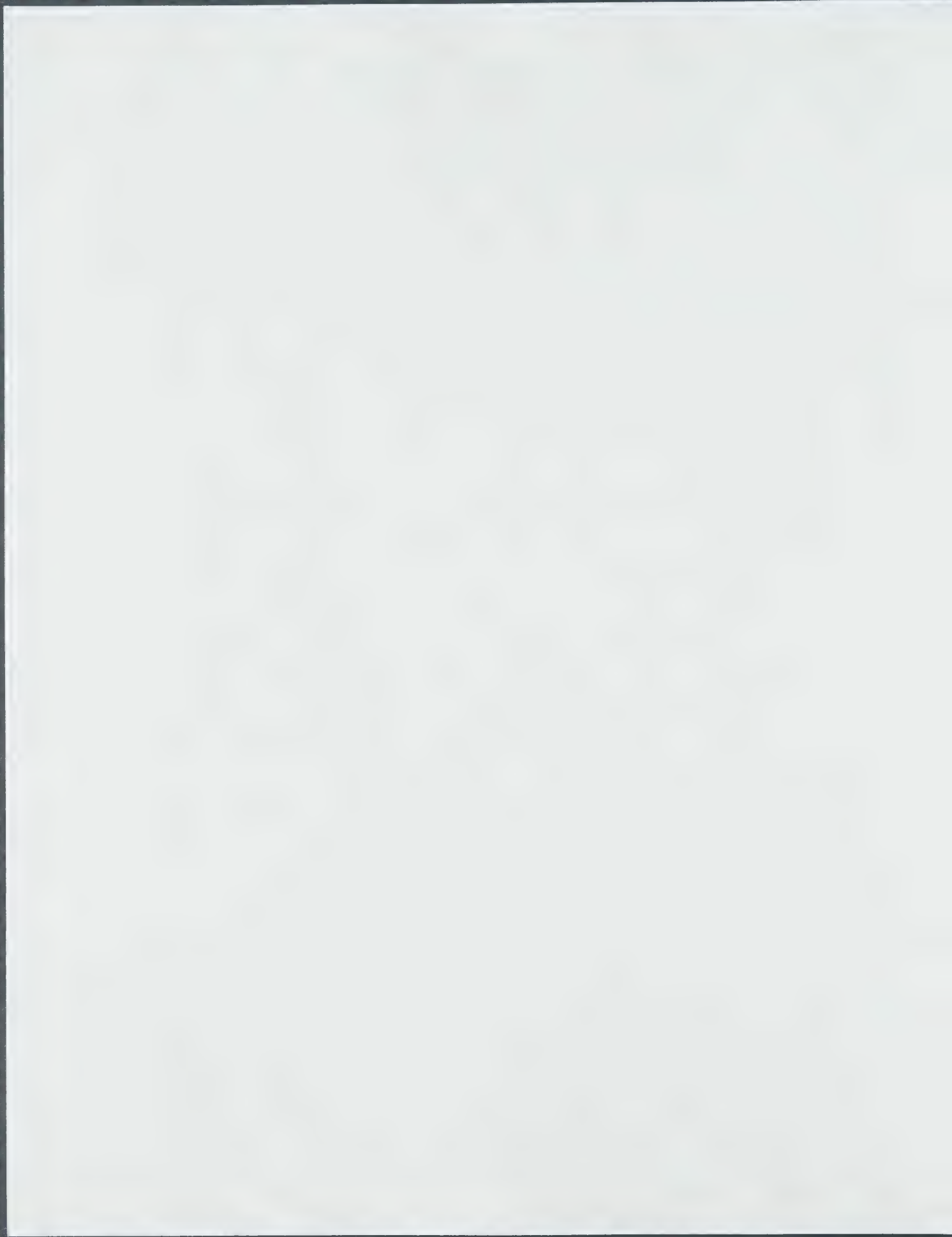
Dr. Pariza speaks very well and knows a great many key people in research and development around the world. I think that the ideal position for him would be one as sales manager for Sigma-Aldrich, but I am not at all certain that he could work with Tom Cori. But then you weren't certain either, and yet I very much hope that you will succeed in your efforts.

Best wishes,

AB/cw

bc: Dr, Richard Pariza

By Appointment Only
ASTOR HOTEL SUITE 622
924 EAST JUNEAU AVENUE
MILWAUKEE WISCONSIN USA 53202
TEL 414 277-0730 FAX 414 277-0709





ALFRED BADER FINE ARTS

DR. ALFRED BADER

ESTABLISHED 1961

May 3, 1995

Mr. Dean Spatz
Chairman
Osmonics, Inc.
5951 Clearwater Drive
Minnetonka, MN 55343

Dear Mr. Spatz:

Isabel and I enjoyed meeting you at the Sigma-Aldrich annual meeting yesterday, and I already look forward to seeing you again at the ACS in Chicago in August.

But if, in the meantime, you should have a free evening in Milwaukee, please do let us know, and I would love to be able to spend an evening chatting with you about Sigma-Aldrich and its singular management.

You will learn a good deal from my autobiography, *Adventures of a Chemist Collector*, which is being distributed in the U.S. by Trafalgar Square. Its Chapter 13 gives the details of my dismissal, referred to in the proxy statement.

Enclosed please find all of the correspondence between Sigma-Aldrich, the SEC and myself relating to the proposal discussed yesterday.

Please note to what enormous lengths the Company went to keep this proposal away from stockholders - the first Sigma-Aldrich letter to the SEC is 16 pages!

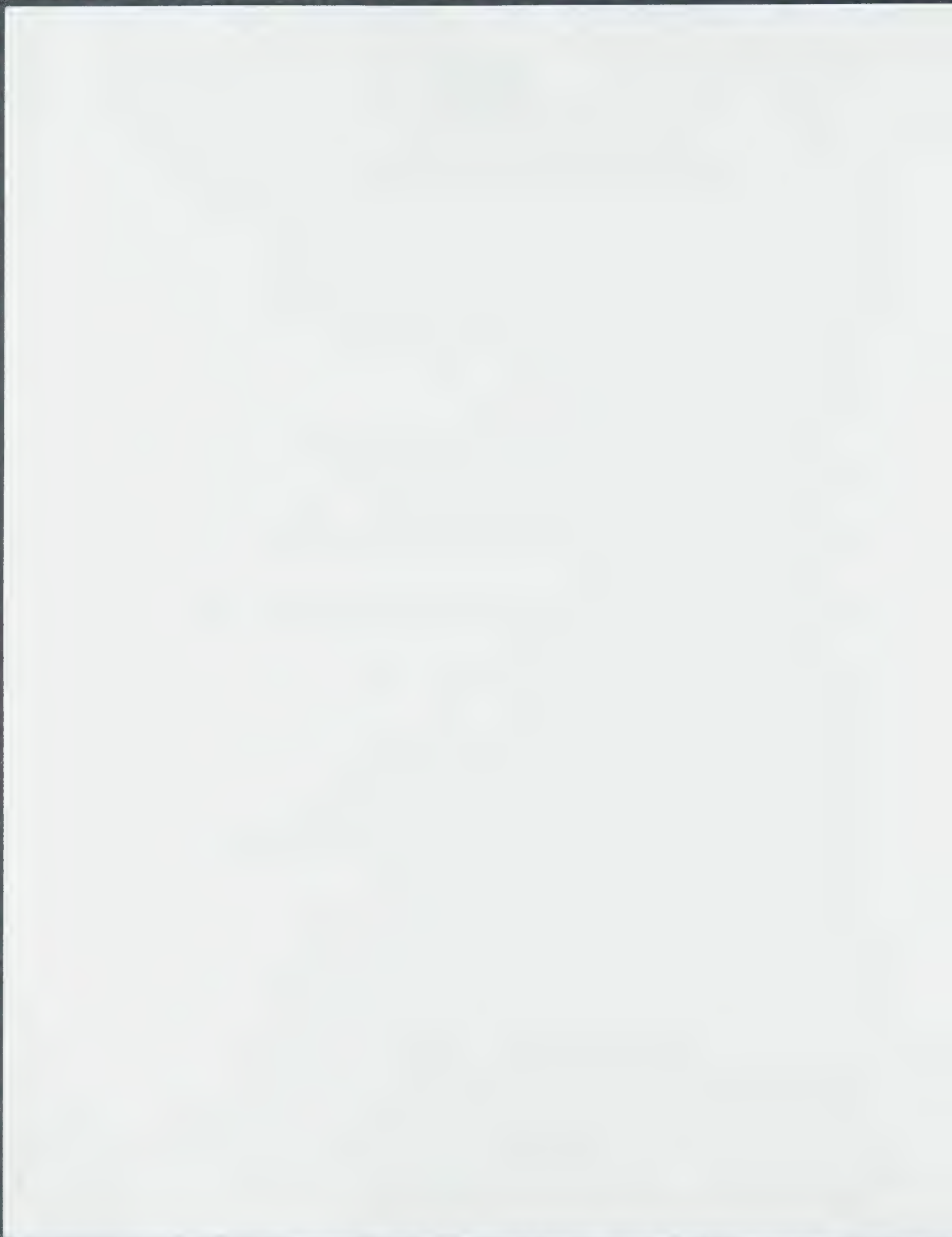
Of course, it is clear to me why you had to join the rest of the directors in recommending against approval, because if you had dissented, you would no longer be on the Board of Directors.

With all good wishes, I remain,

Yours sincerely,

AB/cw
Enclosures

By Appointment Only
ASTOR HOTEL SUITE 622
924 EAST JUNEAU AVENUE
MILWAUKEE WISCONSIN USA 53202
TEL 414 277-0730 FAX 414 277-0709



Dr. Alfred Bader
2961 North Shepard Avenue
Milwaukee, Wisconsin 53211

May 17, 1994

Professor Maurice Manning
Department of Biochemistry and
Molecular Biology
Medical College of Ohio
3000 Arlington Avenue
P.O. Box 10008
Toledo, Ohio 43999 0008

Dear Professor Manning:

Your thoughtful letter of May 13th has given me a great deal of personal pleasure.

What a wonderful story this is.

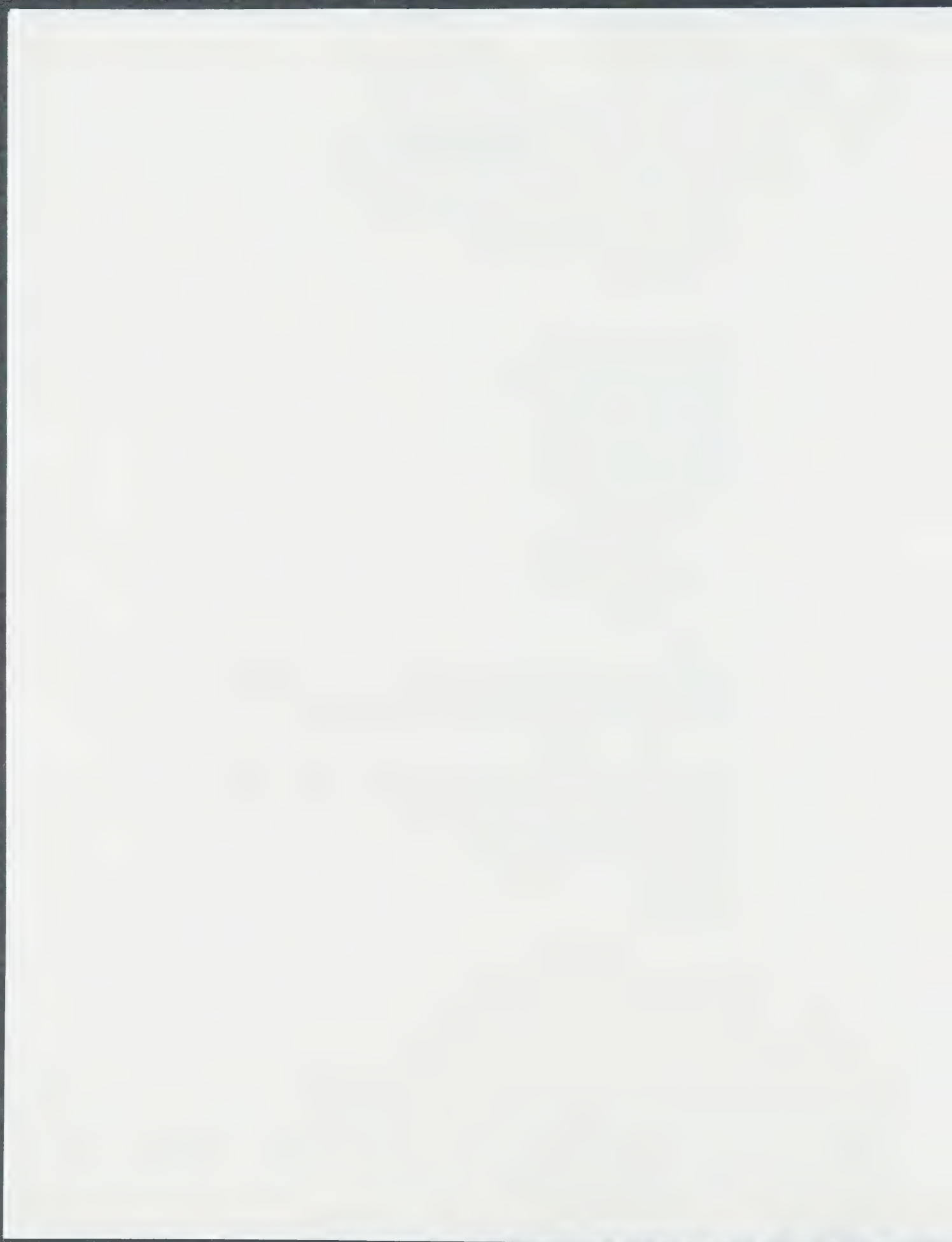
I have taken the liberty of sending your papers and the slide to Dr. Stephen Branca, Vice President at Aldrich who is in charge of new products and also of the *Aldrichimica Acta*. He might like to consider asking you to write a brief story about your important breakthrough for publication in the *Acta*.

Please do keep in mind that while I was thrown out of the company that action came from only one man, Dr. Tom Cori in St. Louis. Many of the people at Aldrich and also at Sigma have remained my good friends.

Many thanks for your thoughtfulness.

Sincerely,

c: Dr. Stephen J. Branca



419-381-4172

3000 Arlington Avenue

Mailing Address: P.O. Box 10008
Toledo, Ohio 43699-0008



419-381-4131
FAX: 419-382-7395

May 13, 1994

Dr. Alfred Bader
Art Gallery
The Astor Hotel
924 E. Juneau
Milwaukee, Wisconsin 53202

Dear Dr. Bader,

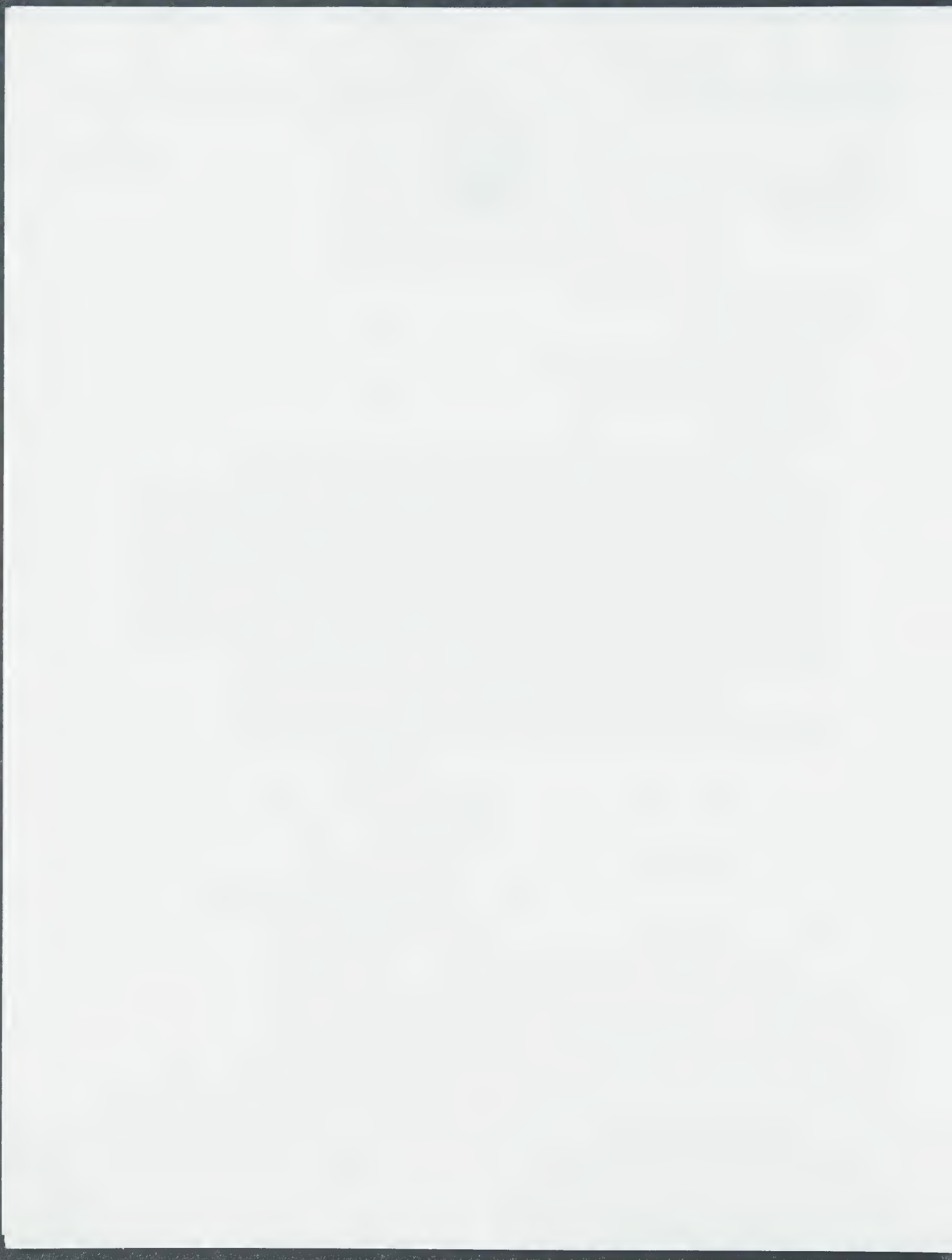
I was delighted to read the story by Ernest L. Carpenter in the C & E News of May 9, 1994 that you are the recipient of the 1995 Parsons Award. Some years ago while browsing through the Aldrich Catalog in my peptide research laboratory, my eyes fell on the structure of adamantane acetic acid. This contains three fused cyclohexane rings. I was immediately struck by the idea that this might somehow be a suitable replacement for a mono cyclohexane sulphhydryl containing derivative in a novel linear vasopressin antagonist. This turned out to be a major breakthrough in our attempts to "design" more potent and selective vasopressin antagonists (see enclosed reprints). Had it not been in the Aldrich Catalog, I would not have thought of using this derivative. In my talks, I always credit your company as the source of this "idea", (see enclosed slide).

So I too am very indebted to you and, although very belated, send you my sincere thanks and heartiest congratulations on this most richly deserved award.

Yours sincerely,

Maurice Manning, Ph.D., D.Sc.
Professor of Biochemistry and
Molecular Biology

MM/ms





Ohio University

Office of Research Enhancement

307 Cutler Hall
Ohio University
Athens, Ohio 45701-2979

614/593-2581

Mailing Address:

150 Greentree Road
Chagrin Falls, OH 44022

216/247-7374

Office of the Provost

May 13, 1996

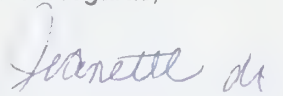
Dr. Alfred Bader
2961 North Shepard Avenue
Milwaukee, WI 53211

Dear Alfred:

I was delighted to note in my May 9 issue of *Chemical & Engineering News* that you will receive the 1995 Parsons Award from the ACS. You richly deserve this wonderful honor and I just wanted you to know that many of your colleagues and friends will be celebrating with you. It's a lovely picture of you and Isabel and a heart-warming story of a scientist and an entrepreneur.

Warmest congratulations!

Best regards,


Dr. Jeanette G. Grasselli

JGG/dlc



Dr. Alfred Bader
2961 North Shepard Avenue
Milwaukee, Wisconsin 53211

February 10, 1993

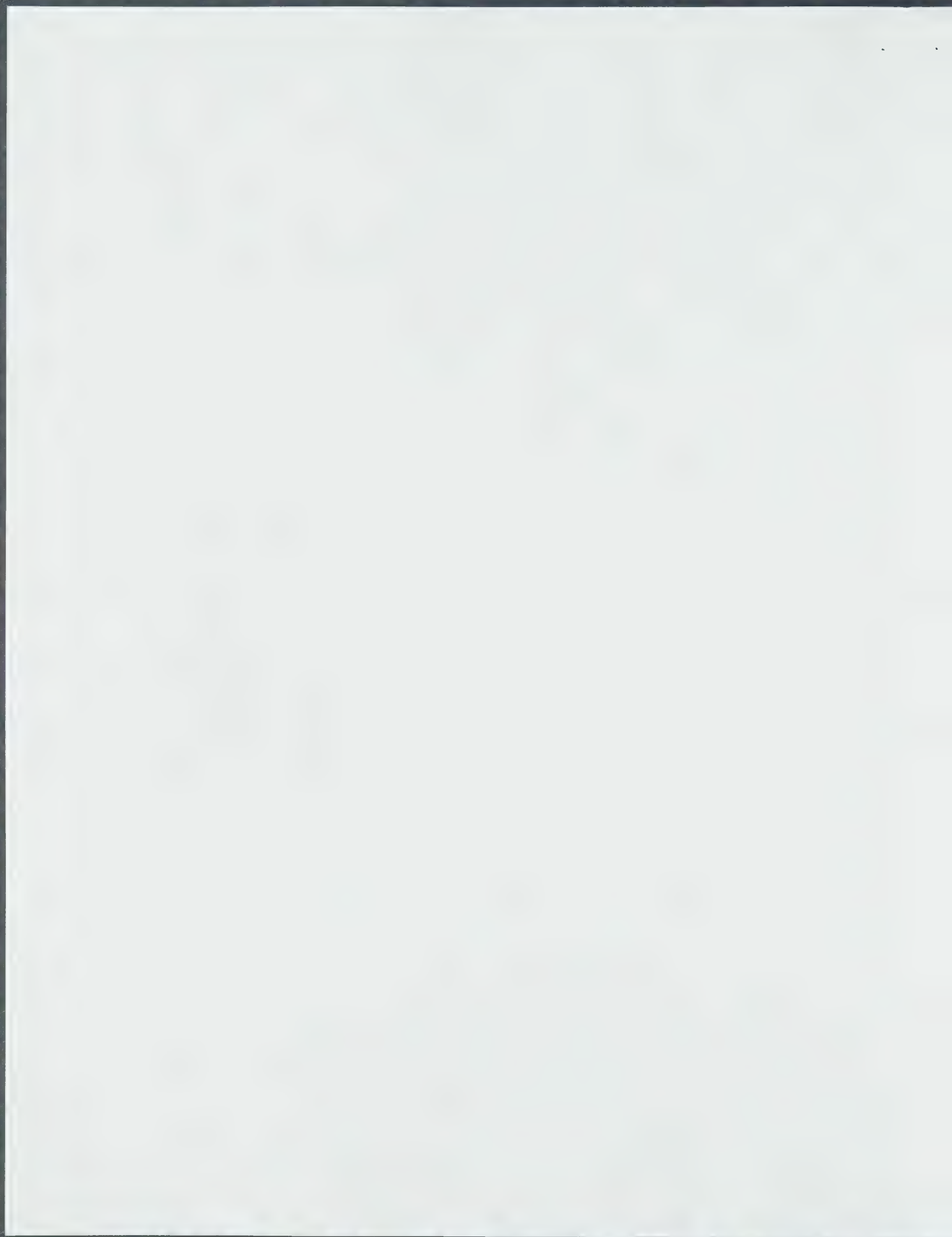
Dr. Larry Ferren
Chemistry Department Box 6047
Olivet Nazarene University
Kankakee, Illinois 60901

Dear Dr. Ferren:

I am honored by your invitation to speak to MACTLAC on October 15 and 16.
Unfortunately, I have already accepted a speaking obligation for those dates.

Thank you for thinking of me.

Sincerely,



**From The Desk Of
Larry Ferren**

**Chemistry Department Box 6047
Olivet Nazarene University
Kankakee, IL 60901
Telephone: 815-939-5251**

January 28, 1993

Dr. Alfred Bader (PERSONAL)
In Care of Aldrich Chemical Company
1001 West Saint Paul Avenue
Milwaukee, WI 53233

Dear Dr. Bader:

I am writing in behalf of a group known as the Midwest Association of Chemistry Teachers of Liberal Arts Colleges (MACTLAC). The group consists of nearly 130 colleges in the Midwest who are dedicated to the liberal arts educational approach. Each year the chemistry teachers from these colleges gather for a two day meeting to discuss a common theme and to seek common solutions to problems that we encounter in the small college environment. Usually 160 to 225 people attend the meeting.

It is customary for the group to have a special speaker after the Friday evening banquet for the dual purpose of informing and entertaining. This coming year the meeting will be at Olivet Nazarene University in Kankakee, Illinois on October 15 and 16, 1993. I am writing to determine if you would be able and willing to speak on Friday evening October 15 after the evening meal. We would be interested in a talk that relates to your integration of art and chemistry.

MACTLAC does provide a budget for the meeting, and we can offer to pay your expenses and a honorarium. I would like to request three things from you. Would you 1) check your schedule to see if you would be available during the time that we would like to have you, 2) provide a list of talks that you would feel are appropriate for a group of this nature, and 3) indicate the amount of honorarium beyond the expenses that you would require to come?

The suggestion that you serve as the speaker has met with great support. I hope that you will be free and willing to attend this event. I believe that you will find this group of chemists to be friendly and enthusiastic toward your talk. Many have heard you before and have indicated that they would like to hear you again.

I have been unable to reach you by phone, and I realize that there is always the chance that the US postal service might lose this letter. If I do not hear from you by March 7, 1993, I will assume that it has not reached you and will begin to make other arrangements.

I appreciate in advance any consideration you will give to this offer.

Sincerely,

Larry Ferren

Larry Ferren
MACTLAC Host 1993



OSMONICS

INVOLVED IN THE FLOW



ANNUAL
REPORT
1992

About the Cover

Marine World Africa USA in Vallejo, California, is one of about 250 exhibits in aquariums and marine parks worldwide that rely on OREC ozonation systems. Osmonics equipment maintains a constant flow of purified water without use of harmful chlorine.



OSMONICS AT A GLANCE

Osmonics is a \$50-million integrated manufacturer of high technology equipment and products that purify water, separate fluids, remove dissolved materials or concentrate wastes from fluids, and enable clean water to be reused or discharged to the environment.

Osmonics was founded in 1969 to commercialize developments in crossflow membrane technology—reverse osmosis, nanofiltration and ultrafiltration. Osmonics pioneered early applications of this technology and has continued to develop innovative new products in response to the needs of industrial, commercial and institutional customers. Today, we are the world's broadest basic manufacturer of water and fluid treatment products, employing 550 people worldwide.

Osmonics first offered stock to the public in 1971 and has been profitable every year since. The stock is traded on the NASDAQ market under the symbol OSMO by 12 market makers. The initial offering price of Osmonics shares, corrected for splits, was approximately 15 cents per share.

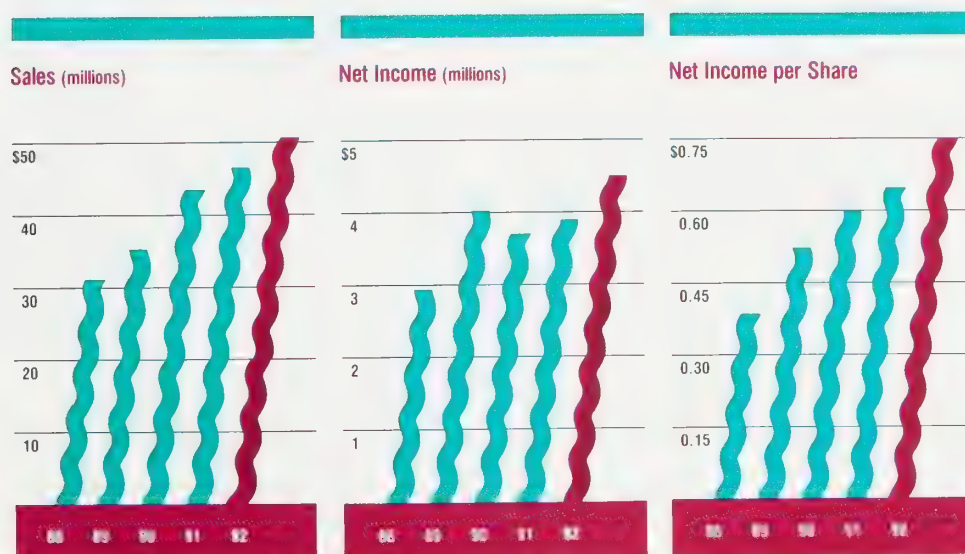
Since 1983, we have made nine strategic acquisitions that have synergy with existing products and distribution. (Our tenth and largest acquisition is pending approval in early 1993.) Through internal product development, new product acquisition, strategic alliances and global expansion, we have increased sales and profits at a 24% compound annual growth rate over the past ten years.

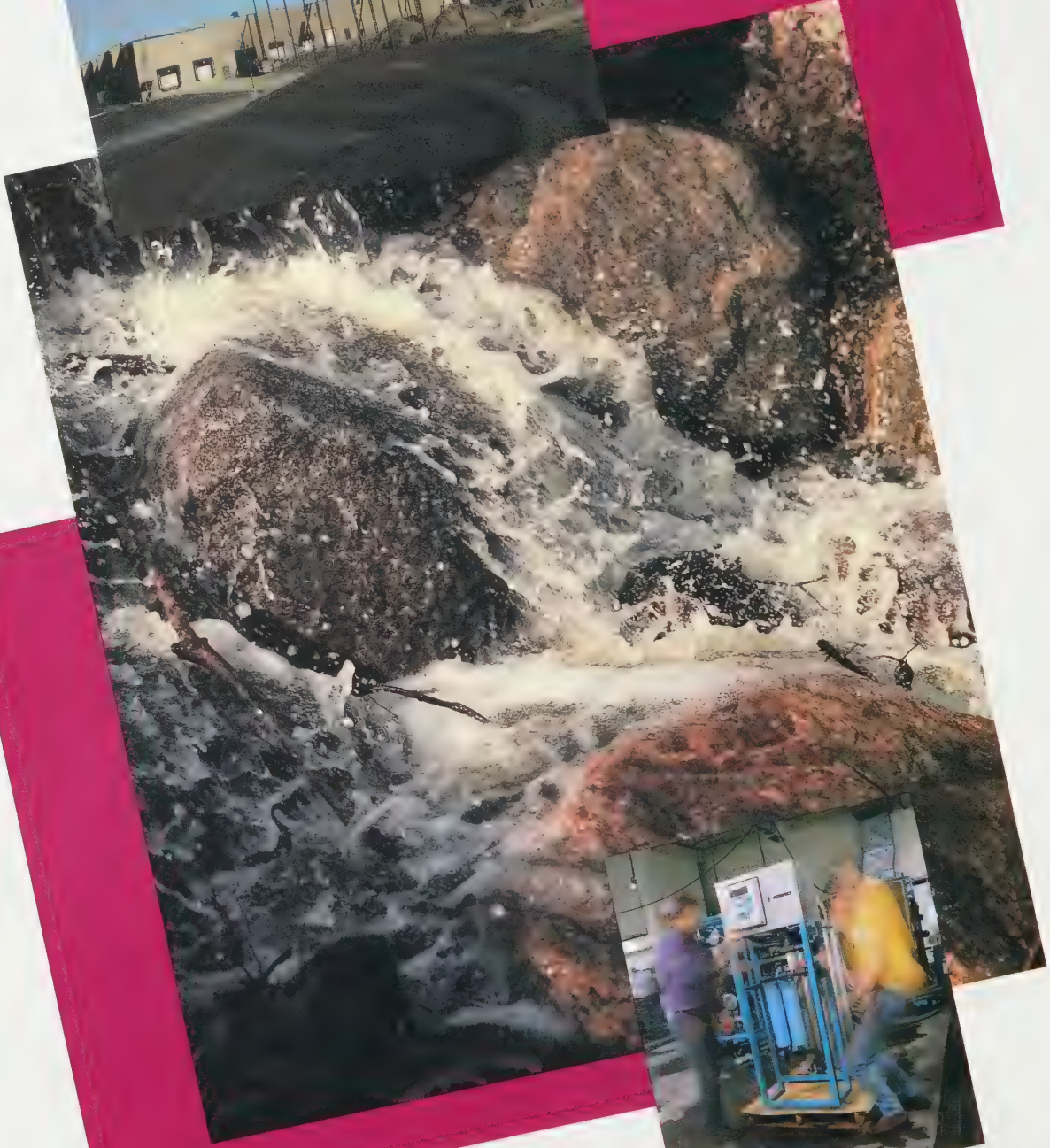
■ Contents

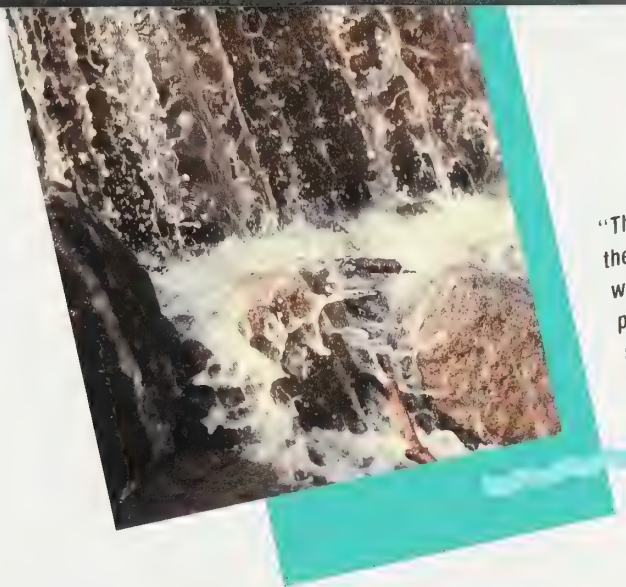
1	Financial Highlights
3	Involved in the Flow
4	Letter to Shareholders
7	Product and Capabilities Overview
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13	The Flow of New Products
15	The Flow of the Marketplace
17	The Flow of Ideas and Effort
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FINANCIAL HIGHLIGHTS

In thousands, except per share data	1992	1991	1990
Net sales	\$50,541	\$46,738	\$43,553
Pretax income	\$ 5,963	\$ 5,804	\$ 5,444
Net income	\$ 4,528	\$ 3,902	\$ 3,714
Cash flows from operations	\$ 6,484	\$ 4,313	\$ 5,430
Gross investment in plant and equipment	\$29,156	\$26,833	\$25,288
Capital investment	\$ 3,102	\$ 2,061	\$ 1,820
Working capital	\$28,238	\$24,722	\$19,851
Shareholders' equity	\$33,793	\$28,891	\$24,720
Shareholders' equity per share	\$ 5.57	\$ 4.80	\$ 4.13
Net income per share	\$ 0.75	\$ 0.65	\$ 0.60
Average shares outstanding	6,043	5,999	6,164
Current ratio	3.7	3.7	2.6
Return on average shareholders' equity	14.4%	14.6%	14.7%
Net income to sales	9.0%	8.3%	8.5%







"This is a very fast-paced environment. We're at the cutting edge of the fluid filtration and separation business. It's not a place for people who don't want to work hard. But high expectations are good for people. We know when we go home at night that we contributed something."

—Tom Kern, Planning and Inventory Control Supervisor

INVOLVED IN THE FLOW

We're involved in a flow that isn't marked by the easy downhill slope or the direction of the crowd. It follows a map of our own making. The flow takes on different shapes. Sometimes it runs silently. Other times it crackles with energy. But always there is this consistent pressure behind it, this desire to excel, to do right.

In the most business-like sense, it's the flow of investment into the critical engines of growth: the synergy of acquisitions, the expansion of physical plant and equipment, new product development and worldwide sales and marketing.

At its most human, it flows through the people of Osmonics. You can see it when they answer a call for information, come in on a Saturday, expedite a customer order or finish an important project. You can sense it when they drop what they are doing to help out another department in a pinch. You can hear it in their words that flow through this annual report.

While Osmonics current manufacturing operations are strategically located across North America, we are actively building our business with distribution in fast-growing international markets.

TO OUR SHAREHOLDERS

It is with pleasure that I report to you a strong performance for Osmonics in 1992 and what looks to be even better performance for this coming year. This letter has been delayed because I wanted to discuss the pending acquisition of Autotrol Corporation and how you, the shareholder, will be affected.

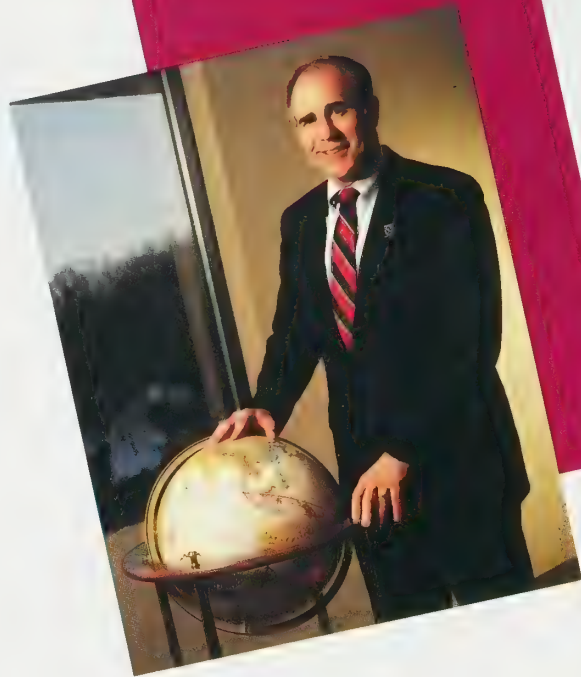
We finished 1992 with a strong fourth quarter — revenue was up 23% to \$14.3 million compared to \$11.6 million for the fourth quarter of 1991. The strong fourth quarter boosted revenue for the year to a record \$50.5 million, an increase of 8% over 1991 sales of \$46.7 million.

Net income after tax for the year ended December 31, 1992 was a record \$4,528,000 (\$0.75 per share), an increase of 16% over the net income of \$3,902,000 (\$0.65 per share) for the previous year. Net income for the fourth quarter ended December 31, 1992 was \$1,395,000 (\$0.23 per share), an increase of 80% compared to net income of \$773,000 (\$0.13 per share) for the same period last year.

We have just ended the first quarter of 1993, and we will report sales of approximately \$14.4 million with profits similar to those of the fourth quarter 1992.

In December 1992, we announced that we had come to an Agreement in Principle with Autotrol Corporation of Milwaukee to merge Autotrol into Osmonics through a stock-for-stock, pooling-of-interests transaction. Autotrol's primary products are automated controls and valves for water softeners, deionizers and filters. These products offer synergy with Osmonics, complementing our products with virtually no overlaps. Perhaps more important is the synergy in sales and marketing.

Autotrol sells to a diverse group of equipment manufacturers who assemble water treatment products and systems. Osmonics' component products are becoming more and more accepted as key products for these system integrators and original equipment manufacturers, who represent a significant emerging market that we have just begun to tap. The Autotrol sales and marketing organization offers increased distribution access to this large group of additional customers.



Autotrol has approximately \$33 million in revenue from the continuing operations that Osmonics will acquire. About 35% of this revenue is derived from international sales. Osmonics had 23% of our 1992 sales out of the United States. The combined companies will generate about \$84 million sales with about 30%, or \$25 million, sold internationally. Autotrol's existing facilities in France, Japan and Australia will complement our established facilities in Switzerland, Thailand and Hong Kong. This strengthened presence in Europe and Asia/Pacific will move us closer to our goal of 50% of sales to international customers.

During the latter part of April, we will be submitting a detailed document (an S-4) to the Securities and Exchange Commission (SEC) discussing Autotrol's and Osmonics' businesses and historical financial results. After SEC review and comments, this document and the Proxy will be forwarded to shareholders of both companies for a vote on the merger. We anticipate this mailing in late May. The annual shareholder meeting will be held about a month later.

After the Agreement in Principle was reached with Autotrol, we began our due diligence review of their financial and business operations. In February 1993, a major embezzlement at Autotrol's French subsidiary was uncovered. This embezzlement totalled approximately \$4.8 million. This discovery — coupled with some accruals to cover increased expenses associated with discontinued operations — has resulted in a loss for Autotrol in 1992. We believe that all of the previous problems have now been accounted for, and we have renegotiated the terms of the acquisition. Under the revised terms, each outstanding share of Autotrol common stock will be exchanged for 0.77 of a share of Osmonics common stock. Autotrol has approximately 3,031,000 shares outstanding, so their shareholders will receive approximately 2,334,000 shares of Osmonics Common Stock. This will be accounted for as a pooling-of-interests done in a tax-free exchange of shares. A definitive agreement has been signed and we are moving ahead with the transaction.

Osmonics' results for the year 1992 continued to strengthen our balance sheet and our current ratio remained at a strong 3.7. Working capital increased to \$28.2 million from \$24.7 million last year as a result of generating \$6.5 million in cash from operations. We utilized \$2.1 million of cash for new manufacturing equipment and the addition of 8500 square feet of office in Minnetonka which includes a new training center. As we grow and add to our range of products and capabilities, consistent communication and technical training become more critical. The expanded training facility accommodates large groups for distributor and customer training as well as in-house training of employees. The center can also produce high-quality videotapes of meetings for use at the other Osmonics facilities and by our distributors worldwide for training their sales staffs.

Another \$1 million was used to purchase a nearly new 50,000-square-foot manufacturing facility in Phoenix. OREC moved to this facility in late 1992, and we recently transferred the ceramic filter and silver membrane business to that location. This new facility gives us room to expand manufacturing of ozone equipment, our fastest growing product, and will also allow us to manufacture our other equipment in Phoenix. We now have equipment manufacturing on the East Coast, the Midwest and the West, giving us increased flexibility and responsiveness to meet our customers' needs throughout North America.

TO OUR SHAREHOLDERS

The extra effort and investment we have been making in sales and marketing started to pay off with strong orders and shipments in the latter part of 1992, and has continued into 1993. Gross profit margins improved in the fourth quarter because of increased utilization of manufacturing capacity and because of a concerted effort to reduce manufacturing costs. In addition, the relatively more profitable replaceable product sales rose to 53% of total yearly sales, up one percentage point from 1991.

During the year, our sales force was able to react to changing market needs as each of our six market groups grew on a year-to-year basis with industrial processing, potable water and food processing growing the fastest. Over the last ten years, revenue and profits have increased at a compound rate of 24% per year. We plan to continue strong investment in sales and marketing to give us similar growth over the next ten years.

Thanks to improved planning, plus manufacturing efficiencies, we increased sales while reducing inventories. Inventory turns improved to 2.2 times compared to 1.9 times last year. We maintain relatively high inventories to meet customer expectations and to support our sales force. However, we continue to work toward higher inventory turnover without reducing customer service. This continued teamwork between sales and manufacturing enables the responsiveness that will make Osmonics a significant player in all of our markets.

As we move ahead, the employees of Osmonics are rising to the challenge of Team 100, started in 1992. Total 100% quality is one aim of Team 100, as is 100% ownership of one's work, 100% positive "can do" attitude and 100% teamwork. I am extremely proud of the progress every one of Osmonics' employees has made in contributing to Team 100's goal of 100% excellence as we strive toward \$100 million in sales.

The market for water treatment and fluid separation products and equipment is said to be as much as \$20 billion per year. We are optimistic that the demand for better water quality will continue to grow unabated. As an important niche player in this huge market, we expect to grow with the market, increase market share and provide consistent earnings growth.

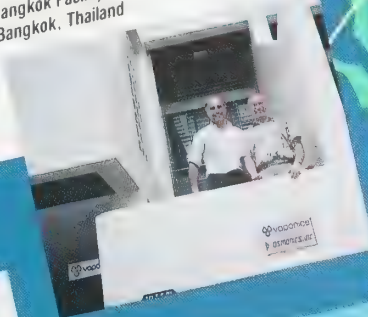


D. Dean Spatz
President & Chairman
April 16, 1993

PRODUCT AND CAPABILITIES OVERVIEW

Osmonics manufactures one of the broadest selections of purification and separation equipment and products available from a single company. Through our worldwide distribution network, we provide the products and services to help industrial, commercial and institutional customers achieve improved processes, quality products and a cleaner environment.

Osmonics Asia/Pacific
Bangkok Facility
Bangkok, Thailand



Osmonics
Corporate Headquarters
Minnetonka Facility
Minnetonka, Minnesota



Vapronics
Rockland Facility
Rockland, Massachusetts



Osmonics
Syracuse Facility
Liverpool, New York



Poretics
Livermore Facility
Livermore, California



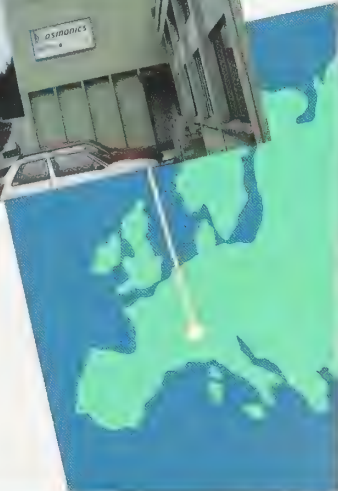
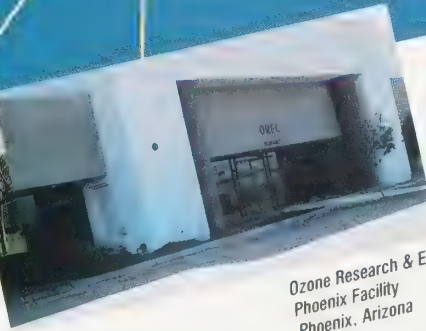
Osmonics Europa
Neuchatel Facility
Valangin, Switzerland



MACE Products
Upland Facility
Upland, California



Ozone Research & Equipment
Phoenix Facility
Phoenix, Arizona



PRODUCT AND CAPABILITIES OVERVIEW

■ Equipment

Our membrane and filter technologies span the filtration spectrum: reverse osmosis (RO), the finest filtration available, capable of separating dissolved salts, bacteria, pyrogens and organics from water; nanofiltration (NF), which provides economical, non-polluting water softening at lower pressure and higher throughput than RO; ultrafiltration (UF), which precisely separates by molecular size such impurities as pyrogens, proteins and viruses; microfiltration (MF), which screens out bacteria and particles in the macro-molecular range; and particle filtration, which removes larger particles the size of pollen, sand and dust.

Despite the great versatility of membranes, no single treatment method can suit all water uses and conditions. A combination of purification and separation technologies is often required. Therefore, Osmonics manufactures equipment that uses other purification methods: ion exchange, traditionally used in the power and electronics industries; distillation, used to produce pyrogen-free water for pharmaceuticals; coalescing, which separates water from oil; and ozonation, which oxidizes impurities and kills viruses, giardia cysts and bacteria 30 times faster than chlorine without chlorine's negative effects.

■ Components

As one of the few companies to manufacture our own membranes, components and equipment, Osmonics can ensure the total quality of our standard machines and custom systems.

Our high-pressure centrifugal pumps and corrosion-resistant, self-priming diaphragm and bellows pumps have many pure fluid and industrial applications. In the size categories where we compete, our TONKAFLO pumps outsell all competing pumps.

Osmonics designs and manufactures replaceable cartridges, separators and filtration elements from a variety of materials, including polymers, ceramics and metal membranes. We also manufacture standard and custom filter housings from stainless steel and plastics.

Our FLOTREX, MEMTREX and VENTREX pleated cartridge filters and SPIRALTEK rolled filters are used for exacting particle filtration. Osmonics also manufactures a complete range of high-capacity depth filters: the high-flow, economical PURTREX, the high-retention HYTREX II and the newly developed, highly selective SELEX. These products are widely used as replacement filters with Osmonics and competitors' equipment. We also manufacture custom filter cartridges for photographic, residential and other applications.

Using our MACE Teflon PTFE components—including air-driven pumps, miniature to large valves, flow meters, regulators, fittings and other components—system designers can assemble completely inert, contamination- and corrosion-free flow control systems for semiconductor manufacture,

biotechnology processing, etching and numerous other uses.

This unequalled product breadth is backed by knowledgeable applications engineers who custom-tailor solutions to purification applications using standard products. To help customers identify problems and evaluate solutions, we offer extensive analytical services, in-house application testing and pilot units for testing in the customers' plants.

■ Balanced Markets and Product Mix

We serve 16 worldwide markets in six broad categories. Overall Company sales are evenly balanced between equipment and replaceable products. The year-to-year proportion of sales by market varies. For example, in 1988 electronics was our largest market. Despite continued growth over the next three years, sales to the electronics industry were outpaced by the faster-growing processing and power markets. Our ability to sell the same basic products to this diversity of markets helps insulate Osmonics from the effects of downturns in individual industries.

■ Research and Manufacturing

Osmonics holds more than 60 patents worldwide and uses a multitude of proprietary processes in the manufacture of our products. Membranes, pleated cartridge and depth cartridge filters, pumps, housings and related equipment are manufactured at our Minnetonka, Minnesota headquarters. The facility also includes a full-scale microbiology lab and is the primary site for Corporate research and development.

The Rockland, Massachusetts facility of our Vaponics subsidiary specializes in distillation equipment, replaceable ion exchange cartridges, large scale regenerable ion exchange and related ultrapure water systems.

Ozonation equipment, ceramic cartridges, metal membranes, and related pure water equipment are manufactured by our OREC (Ozone Research and Equipment Corporation) subsidiary in a new Phoenix, Arizona facility.

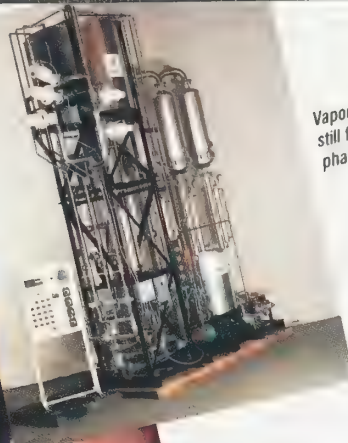
Roller filter products, RO/UF membrane, melt-blown filter media and home RO membrane elements are manufactured in our Syracuse, New York facility.

Our Teflon PTFE pumps and flow control components are manufactured in Upland, California. And our Poretics affiliate in Livermore, California manufactures polycarbonate track-etch membrane and related laboratory microfiltration products.

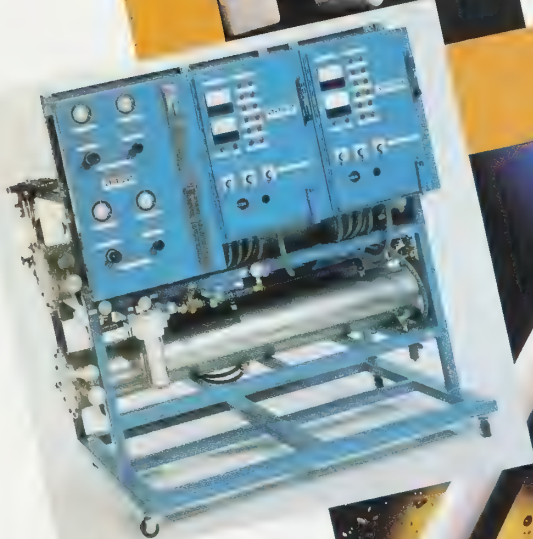
Quality and customer satisfaction are an everyday part of business at Osmonics. The customer's name is prominently displayed on equipment as it is built so that employees know who will use the equipment they are making. The same assembly people will often provide start-up for their equipment at the operating site to ensure total customer satisfaction.



New Hy° all-Teflon PTFE valves from MACE



Vapronics multi-effect still for the pharmaceutical industry



OREC's HM Series ozonator



OSMO separators in two-, four- and eight-inch sizes



TONKAFLO pumps for pure water applications



HYTREX II family of high-capacity depth filters

■ Sales, Distribution and Service

A worldwide network of nearly 500 domestic and 150 international distributors sells Osmonics filters, pumps and smaller equipment. These distributors are selected for their knowledge of fluid handling and water treatment products and service. Many distributors can quickly supply replacement products, perform after-sale service and provide quick customization of standard Osmonics products.

Company-staffed sales offices are located in Hong Kong, Indonesia, Singapore, Switzerland and Thailand, and in 21 U.S. locations. Large custom machines and systems are sold directly from these offices by trained sales engineers. District managers work with local distributors to ensure continuous service and up-to-date product knowledge.

■ Markets Served by Osmonics

- **Electronics**
 - Semiconductor Manufacturing
- **Processing**
 - Chemical Processing
 - Textiles, Inks and Dyes
 - Automotive and Metal Finishing
 - Pharmaceuticals, Cosmetics and Bioengineering
 - Photographic and Printing Processes
 - Pulp and Paper
- **Potable Water**
 - Potable Water
 - Laundry and Car Wash
- **Medical/Laboratory**
 - Laboratory
 - Artificial Kidney Dialysis
- **Power**
 - Petroleum, Gas and Mining
 - Power Generation
- **Food**
 - Beverage
 - Food Processing
 - Dairy Processing

Osmonics continues to expand, with nearly 250,000 square feet of modern manufacturing and warehouse space strategically located to serve the North American market.



Our investment in new facilities and equipment—such as this clean room and PLC laboratory left—responds to our customers' needs for high-performing products and sophisticated controls.



*"When we first came to tour the new Minnetonka building in 1981, we thought Dean had lost his mind—that we could never fill all that space. Now, four expansions and five acquisitions later, we know better. The only limits are those we place on ourselves."
—Kay Kettwig, Manager, Administrative Services*

THE FLOW OF PHYSICAL RESOURCES

■ New Plant and Equipment

In 1992 our Minnetonka headquarters expanded, OREC moved to a new building and Vaponics began to utilize fully the flexibility of the facility they occupied in late 1990. Across Osmonics, improvements affected manufacturing, engineering, training and administrative space and support systems.

This flow of investment directed throughout the Company will yield three primary benefits: greater flexibility to manufacture products and system components; increased synergy among locations; and a geographic balance of well-equipped facilities that can serve customers throughout North America.

At Minnetonka, we upgraded our headquarters building inside and out. A new state-of-the-art training center will enhance our ability to conduct employee, distributor and sales force training. Planning and inventory control moved into new quarters as well.

As part of the expansion, we also equipped a state-of-the-art PLC (programmable logic controller) laboratory for training engineers and programming PLCs. Customers increasingly look for filtration systems with more sophisticated electronic controls and are integrating this equipment into larger plant automation systems. Already Osmonics-programmed equipment is operating with Allen-Bradley, Siemens and other major computer control packages.

Minnetonka also built new clean rooms for the ultrapure filtration products and pumps sold to demanding pharmaceutical and high-grade electronics customers. By conducting manufacturing and packaging in a controlled environment, we deliver cleaner products that these customers can put into service without extensive "rinse-up" to flush away incidental particles.

To better serve the same market, we added a "Class-60" clean room at our MACE subsidiary in Upland, California. According to DuPont, this facility ranks among the cleanest worldwide for the molding of high-quality Teflon PTFE. MACE uses this material in the fabrication of its high-purity fluid management components.

Our growing OREC subsidiary moved into a modern 50,000-square-foot facility in late 1992. In addition to making room for our thriving ozonator business, the three-fold increase in space gives us the capability to fabricate cabinets, service

pumps and assemble other Osmonics products such as RO machines, dual media filters and ion exchange equipment.

In early 1993, we moved our inorganic (silver and ceramic) membrane production to Phoenix to take advantage of the area's strong ceramics industry. OREC's Phoenix location is also strategically located to provide a regional service center for the West Coast electronics market and the growing Mexican bottled beverage market. The new facility will also permit us to build the ozone contacting tanks that comprise a significant part of a system's cost.

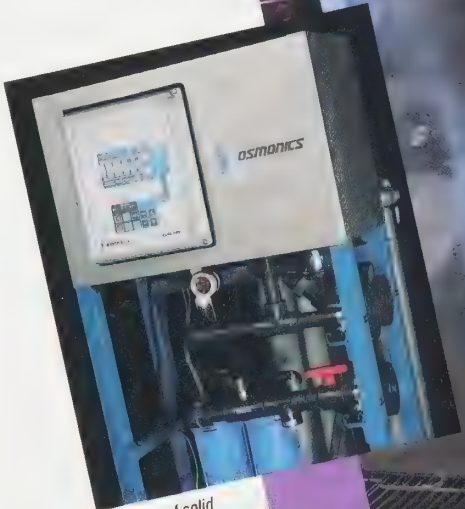
Although Vaponics moved into its Rockland, Massachusetts facility in 1990, the payoffs from the new location really began to show up in 1992. This facility was designed for flexible manufacturing. It gives us the ability to manufacture filter housings for Syracuse, in addition to our core distillation and ion exchange products. With two five-ton bridge cranes, we have the capability to handle very large stills and components for large systems, such as stainless steel activated carbon filters.

The Syracuse facility, obtained in the December 1990 FASTEK acquisition from Eastman Kodak, has membrane production capability to augment existing capacity, reducing the need for additional equipment investment in Minnetonka. Working with Corporate R&D, Syracuse has proven its ability to manufacture pleated filter media and specialized blown microfiber cartridge filtration products.

■ Systems and Improvement Processes

All the acquired facilities now operate on the corporate-wide computer system, reducing the paper barriers within and between locations. With better communication and streamlined systems, we will continue to shorten development cycles—getting new products from the drawing board to market faster. With greater plant flexibility and easily transportable data, we can make sourcing decisions based on customer requirements, capacity and profitability.

Orders which involved multi-location manufacturing and customer support increased sharply in 1992. For example, one order received last year from the large Mexican bottling company, Liquimex, involved skid-mounted equipment, pumps and filters from each Osmonics Strategic Business Unit (SBU). Another pure water system for MIT's Lincoln Labs was built in four locations and will be serviced from Rockland.

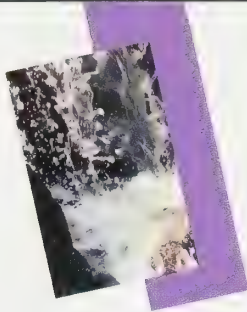


Prototype of solid state electronic control module.

In developing a new dialysis machine, above, we built this prototype and solicited the reactions of assemblers who would build it, nurses who would operate it and distributors who would service it.



New polymer materials.



“There’s a need for uniformity, but also a need for independence. On the floor, things don’t always work out the way engineering thought on paper. Together, we have plenty of freedom to make things work.”
—Ken Gilleshammer, Assembler

THE FLOW OF NEW PRODUCTS

■ Managing Product Development

The marketplace has grown more sophisticated in its use of the latest generation of filtration technology. In response, Osmonics has expanded our product development approach beyond creating entirely new products. We are managing the product development process to focus on developing improved products that perform better for a particular industry (such as pleated filters for the pharmaceutical industry). And we are modifying existing products to exploit opportunities in other markets (such as ozonators for large bottled water or waste treatment applications).

We have established a formal process to identify such high-impact opportunities. In this program, we select a project leader and put a structure in place to manage concurrent development involving marketing, design, manufacturing, quality, sales and marketing support.

This approach was used to quickly develop a new, lower-cost RO machine in response to feedback from the Far East market. A cross-functional team considered design variables including preferred features, performance requirements, manufacturing costs, service support logistics and even shipping considerations. Once new products developed by this process enter production, everyone from purchasing to sales to the assembler on the shop floor is familiar with the product.

In addition to developing new products, we are building synergy among products acquired over the past decade. The added resources Osmonics brings to our acquisitions has repeatedly opened up opportunities for products previously focused in narrow niches. Last year, OREC introduced a new large tank ozonator. This year OREC is developing a smaller ozone catalyst destruct unit for the bottled water market and ozone monitor cabinet improvements for wet locations. Vaponics has developed a replaceable ion exchange cartridge to fit the Millipore and Barnstead laboratory water systems. Our most recent acquisition, FASTEK, has the second highest number of development projects under way, after Minnetonka.

R&D on these products is done at the Strategic Business Unit (SBU) under the direction of a product manager. (Minnetonka

retains responsibility for basic research and cross-product R&D.) Local development efforts are coordinated with Corporate R&D—through regular business and project reviews—to ensure that common problems aren’t being solved site-by-site. This collaboration also supports a trend away from custom engineering each new product and toward more standard designs using interchangeable components.

■ New Products and Applications

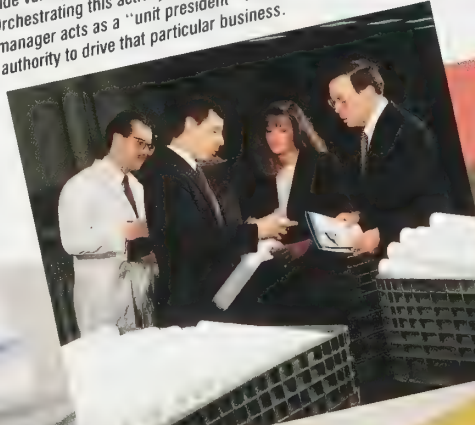
Given this increase in communication, ideas for new products flow from all corners of the Company. For example, basic materials research has led to three new polymers for crossflow membranes that resist fouling and provide unique surface chemistry for NF filtration and waste processing. Osmonics will manufacture these proprietary polymers.

The manufacturing technology developed for the SELEX filter has spillover benefits for the HYTREX line. Control of more variables in the manufacturing process has spurred the development of new products based on size—very small and very large diameter filters.

One way of anticipating emerging needs in the marketplace is to build mutually beneficial alliances with strategic partners who are breaking new ground and require specialized applications. The solutions we help them discover today may develop into new markets for our products tomorrow. We have several such partnerships in the pilot plant stage for glycol recovery, dye desalting and a new beverage product. We are also introducing a solid state electronic control module (the ECM-100) for Osmonics equipment which gives users added options such as data recording, remote monitoring and control.

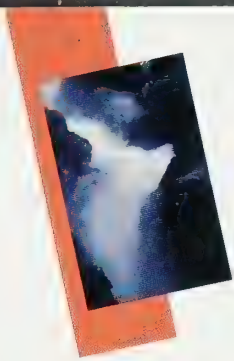
Customers also have more options in predicting the performance of our filters and equipment in specific applications. We have upgraded our proprietary analytical computer programs to consider more operating variables. This steady investment in analytical technologies has put Osmonics products, as well as our testing capabilities, on a par with much larger companies.

Responding to the needs of our customers requires a flow of cooperation that involves a wide variety of people and resources. Orchestrating this activity, the product manager acts as a "unit president" with authority to drive that particular business.



Osmonics has invested in high-speed automated packaging and inspection equipment to ensure the capacity to meet market demand for HYTREX filters.

Our 1992 Distributor Sales Conference, with the theme "Partners in Excellence," helped make distributors part of the Osmonics team.



"In depth filters, we're obligated to meet our distributor orders. If somebody needed a filter and couldn't get it from us, they wouldn't wait. They'd go elsewhere. It's just expected, if an order needs to get out, you take off your tie and help get it out."

—Joe Szczepanski, Manager, Depth Filter Manufacturing

THE FLOW OF THE MARKETPLACE

One of Mexico's largest bottlers approached our Mexican distributor, Helguera y Asociados, with questions about using ozonation in bottling water. In the process, they found a company that could supply their total water purification system—Osmonics. The sale involved all Osmonics Strategic Business Units (SBUs), and of course, service from our distributor. Orchestrating such multi-level responses to customer needs is becoming more commonplace as we make the transition from an engineering-oriented company to a more sales and marketing-driven company.

In the past several annual reports, we have described our steadily growing investment in sales and marketing. This commitment continues. In 1992 we added sales supervision positions and stepped up training in both distributor sales and engineered products and systems. In the coming year, we plan to increase our direct sales force by 50 percent. By putting more people in the field, we are making it easier for the customer to find us. And by concentrating responsibility for all equipment and systems sales in Minnetonka, we are making it easier for Osmonics to respond quickly.

With this centralized sales focus, SBUs can now dedicate resources to product literature, training, technical sales support and joint marketing that reach all our sales channels. For example, instead of fielding more product salespeople, OREC funded training for Osmonics international sales employees and an ozone application manual for customers, distributors and direct sales. The result—a 20-fold increase in sales of ozonators in Asia alone last year.

We have broken up large sales territories into smaller districts so that local sales managers can provide more support to distributors and spend more time with users of our products. This tighter focus on what's happening in the marketplace led us to identify a new opportunity for component sales—regional companies who we call system integrators. They purchase equipment and products, then tie them together into specialized systems which they install. Osmonics, as a basic manufacturer with a broad product portfolio, is an ideal single source for these customers.

Coupled with expanded sales coverage in the field, we have strengthened product management at home. SBU managers

now have focused responsibility for the manufacturing, development and product management of their products. We also elevated product management from a part-time duty to a full-time pursuit on two additional product lines.

Once sales and marketing responsibilities are clarified in this way, customers can be easily transferred to the sales channel best equipped to serve their needs, regardless of their industry, application or location. And salespeople become more involved with products that exhibit strong support from the "unit president" in the SBU. Under the leadership of our product managers, previously undermarketed products are finding new customers. After we appointed product managers for two such mature product lines in late 1991, sales for 1992 increased by more than 15 percent.

Achieving the full promise of synergy requires fielding a sales force that understands how all Osmonics technologies come together to solve customer problems. Our field sales engineers are expected to understand all products rather than those from one location. And we want our distributors to be confident in recommending Osmonics products to their customers. To this end, sales and technical education received a major emphasis under a new training coordinator in 1992. It will have even more attention in 1993 as we continue to add sales engineers and district managers.

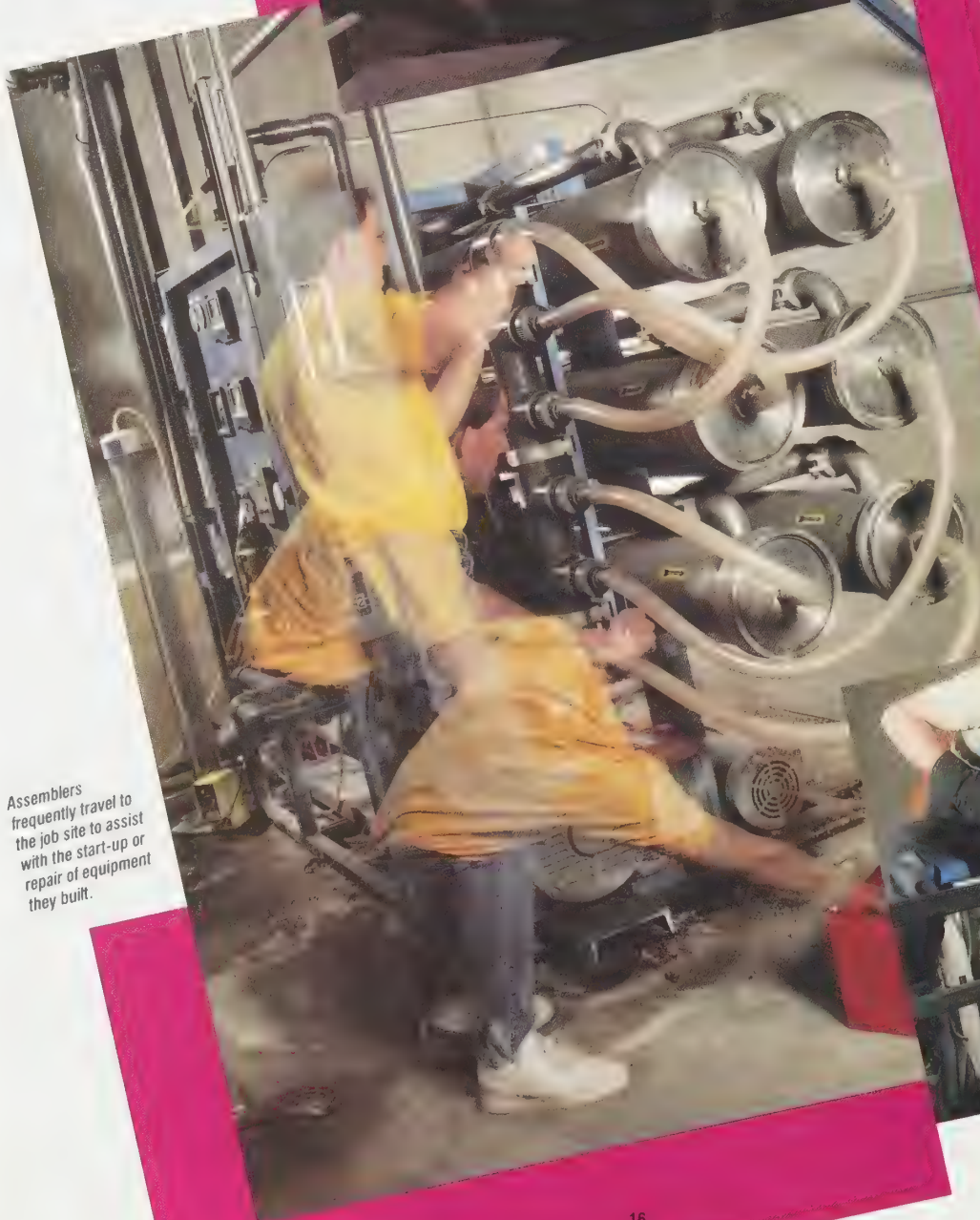
Spending on sales promotion increased and was more focused in 1992, with 40 percent more insertions of product-specific advertising. Mailings increased 10 percent. New and revised sales literature available tripled. Joint corporate marketing efforts, including trade shows and exhibits, helped present a united Osmonics image and reduced overall expenses. As a result, leads more than doubled, despite the slow economy. With the increased volume of inquiries, we expanded lead qualification efforts during 1992 to maintain sales force productivity.

Did this focus on marketing and selling make a difference? We believe it did. Sales and orders were up in 1992—without a blockbuster sale to distort the trend. Increasing the push behind our products will ensure that a healthy stream of orders continues to flow.

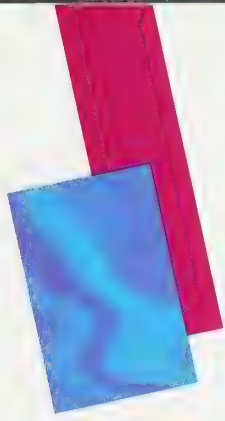
Dean Spatz regularly welcomes newly hired employees to explain the Company's mission and culture—and to reinforce their importance as contributors to Osmonics success. Periodic "Speakeasy" lunches give small groups of employees an opportunity to raise any issues with the president.



Assemblers frequently travel to the job site to assist with the start-up or repair of equipment they built.



Precision welding is done in-house to ensure total quality and system performance.



“When I started, this Company was 15 or 20 people. Pure water was so new, there were no experts and everybody’s ideas were accepted as worth something. We all just naturally understood we were working to the same end because we were always helping each other out. Now it’s harder to keep that ‘small-town attitude in the big city’. But that’s what Dean wants to see—not a handful of people making decisions for the rest of us.”

—Tom Wagner, Engineering Tech

THE FLOW OF IDEAS AND EFFORT

Too often in describing the contributions of their employees, organizations resort to tired clichés (“our most important asset”) or jargon that makes the average worker cringe (“empowerment”). To write this annual report—and especially this section—we listened to a wide range of Osmonics employees. Some of their actual words appear on these pages. But their ideas and experiences are reflected throughout the report.

At Osmonics, people have always worked hard and helped each other. But as we grew, we accumulated control of decisions at the management level that had naturally been made at lower levels when we were smaller. This unintended concentration of control slowed down routine decisions and created inefficiencies. We are actively trying to revitalize that small company sense of individual responsibility, authority and ownership, while continuing to instill the management disciplines needed by larger companies.

We are pursuing this change by flattening the organization, streamlining administrative processes and actively recognizing employees who act independently to solve problems or generate new ideas. Training, communication processes and regular product and business reviews open to all encourage employees to think of Osmonics as their own business. And our profit-sharing plan, stock ownership plan and a new productivity gain-sharing program at Minnetonka ensure that there are rewards for employees treating Osmonics like their own business.

Team 100 is the overall banner for this Company-wide process. It recognizes that the “experts” in the Company often don’t have fancy titles or private offices. And it seeks to capture the innovation that comes from everyday experience as well as from the laboratory.

For example, periodic deliveries interrupted a receiving clerk’s work process about eight times a day. Wouldn’t it be better if we had fewer carriers sending fewer trucks, he asked? The resulting consolidation led to streamlined work flows and savings throughout the plant. Could we make it easier for a

distributor to receive our products? A warehouse worker who accompanied a shipment to a distributor came back with ideas that resulted in a new pallet shipping method. It reduces labor, eliminates shrink wrapping—and unwrapping—filters so they go directly to inventory from the truck.

Any employee at any location can nominate another for improvements, new ideas or “can do” spirit. Between September and year-end, more than 50 employees Company-wide received Team 100 recognition.

Osmonics sends assemblers to customer locations to do start-up or repair because they know the equipment. We move workers between locations to balance workloads and let welders cross-train themselves to cover vacations for each other. Clerks may help out in filter manufacturing, and sales engineers may do pump repairs. We train Teflon machinists to self-inspect their work, and when they consistently meet quality standards, they qualify as Artisans with increased pay. We share management ideas in informal supervisor meetings, exchange technical information in cross-SBU sessions and invite participation in the decisions by the people who will be affected.

Says OREC general manager Paul Overbeck, “We’re trying to break the ‘we’ve always done it this way’ answer to ideas from the assembly floor. Would it work? Would it be better? Would it cost less? Then let’s try it.”

Adds Vaponics general manager Pieter Van Slyck, describing a decision to bring some manufacturing work in-house, “Prior management would do the work, make the decision and provide the shop floor with the tools. Now we provide the guidance, resources and organizational skills and let manufacturing make the decision.”

In the process of such involvement, we remove bottlenecks, improve customer service, gain valuable insight into product performance and maintain pride in our work.

This is how a small company operates. It is a spirit we intend to keep as we grow and bring acquired businesses into the flow.

OSMONICS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)

	Year ended December 31,		
	1992	1991	1990
Sales	\$50,541	\$46,738	\$43,553
Cost of sales	29,034	26,933	24,568
Gross profit	21,507	19,805	18,985
Operating expenses:			
Selling, general and administrative	12,563	11,515	10,601
Research, development and engineering	2,998	2,934	2,537
	15,561	14,449	13,138
Income from operations	5,946	5,356	5,847
Other income (expense), net:			
Interest income	870	711	744
Interest expense	(670)	(1,100)	(1,266)
Other	(183)	837	119
	17	448	(403)
Income before income taxes and cumulative effect of accounting change	5,963	5,804	5,444
Income taxes	1,855	1,902	1,730
Income before cumulative effect of accounting change	4,108	3,902	3,714
Cumulative effect of accounting change	420	—	—
Net income	\$ 4,528	\$ 3,902	\$ 3,714
Per share data:			
Income before cumulative effect of accounting change	\$ 0.68	\$ 0.65	\$ 0.60
Cumulative effect of accounting change	0.07	—	—
Net income	\$ 0.75	\$ 0.65	\$ 0.60
Average shares outstanding	6,043,000	5,999,000	6,164,000

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

CONSOLIDATED BALANCE SHEETS (In thousands except share data)

ASSETS	December 31,	
	1992	1991
Current assets		
Cash and cash equivalents	\$ 4,304	\$ 3,279
Marketable securities	11,426	8,571
Trade accounts and notes receivable, net of allowance for doubtful accounts of \$485 in 1992, and \$462 in 1991	8,246	5,899
Inventories	12,369	14,110
Deferred tax assets	1,474	1,135
Other current assets	781	719
Total current assets	38,600	33,713
Property and equipment, at cost		
Land and land improvements	1,829	1,493
Building	10,055	8,553
Machinery and equipment	19,101	18,280
	30,985	28,326
Less accumulated depreciation and amortization	(12,525)	(10,637)
	18,460	17,689
Long-term investments	1,233	1,233
Other assets, net of accumulated amortization of intangible assets of \$679 in 1992, and \$933 in 1991	2,007	2,296
Total Assets	\$60,300	\$54,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,673	\$ 3,624
Notes payable and current portion of long-term debt	473	95
Accrued compensation and employee benefits	1,866	1,584
Other accrued liabilities	4,350	3,688
Total current liabilities	10,362	8,991
Long-term debt	13,221	13,697
Other liabilities	246	490
Deferred income taxes	2,678	2,862
Shareholders' equity		
Common stock, \$0.01 par value		
Authorized — 20,000,000		
Issued — 1992: 6,071,560 and 1991: 6,020,132 shares	61	60
Capital in excess of par value	6,087	5,714
Retained earnings	27,645	23,117
Total shareholders' equity	33,793	28,891
Total Liabilities and Shareholder Equity	\$60,300	\$54,931

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	Year ended December 31,		
	1992	1991	1990
Cash flows from operations:			
Net income	\$4,528	\$ 3,902	\$ 3,714
Non-cash items included in net income:			
Depreciation and amortization	2,376	2,700	2,025
Deferred income taxes	(103)	53	(308)
Cumulative effect of accounting change	(420)	—	—
Gain on investments	(88)	(1,026)	(238)
Accounts receivable	(2,237)	(251)	(86)
Inventories and other current assets	1,679	(1,234)	(1,118)
Accounts payable and accrued liabilities	749	169	1,441
Net cash provided by operations	6,484	4,313	5,430
Cash flows from investing activities:			
Payment for business acquisitions, net of cash acquired	—	(50)	(567)
Purchase of investments	(5,965)	(4,044)	(5,145)
Sale of investments	3,261	5,923	4,343
Purchase of property and equipment	(3,102)	(2,061)	(1,820)
Other	71	148	(105)
Cash used for investing activities	(5,735)	(84)	(3,294)
Cash flows from financing activities:			
Purchase of treasury stock	—	—	(12,246)
Proceeds from issuance of long-term debt	—	9,948	9,914
Reduction of long-term debt	(76)	(10,064)	(48)
Notes payable and line of credit	(22)	(3,635)	(86)
Issuance of common stock	374	269	185
Net cash provided (used) in financing activities	276	(3,482)	(2,281)
Increase (decrease) in cash and cash equivalents	1,025	747	(145)
Cash and cash equivalents – beginning of year	3,279	2,532	2,677
Cash and cash equivalents – end of year	\$4,304	\$ 3,279	\$ 2,532

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except share data)

	Common Stock		Capital in Excess of Par Value	Treasury Stock	Retained Earnings
	Shares	Amount			
Balance, January 1, 1990	7,925,063	\$ 79	\$ 17,528	\$ (42)	\$15,501
Net income	—	—	—	—	3,714
Employee stock purchase plans	31,322	1	185	—	—
Repurchase of Company shares (1,961,325 as restated)	—	—	—	(12,246)	—
Balance, December 31, 1990	7,956,385	80	17,713	(12,288)	19,215
Net income	—	—	—	—	3,902
Employee stock purchase plans	39,697	—	269	—	—
Retirement of treasury stock	(1,975,950)	(20)	(12,268)	(12,288)	—
Balance, December 31, 1991	6,020,132	60	5,714	0	23,117
Net income	—	—	—	—	4,528
Employee stock purchase plans	51,428	1	373	—	—
Balance, December 31, 1992	6,071,560	\$ 61	\$ 6,087	\$ 0	\$27,645

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

1. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Osmonics, Inc. and its wholly and majority owned subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Marketable securities are stated at the lower of aggregate cost or market at the balance sheet date. Unrealized losses on current marketable securities are charged to income. Realized gains or losses are determined on the specific identification method and are reflected in income.

Sales are recorded when the product is shipped.

Inventories are stated at lower of cost (first-in, first-out method) or market.

Depreciation and amortization of property and equipment are provided on the straight-line method over estimated lives of 3 to 40 years.

Deferred income taxes have been provided for income and expenses which for financial reporting purposes are recognized in different accounting periods than for income tax purposes.

Tax credits are recognized as a reduction of income taxes in the year the credits are utilized.

The Company accrues for the estimated cost of warranty and start-up obligations at the time revenue is recognized.

The excess of cost over the fair market value of assets acquired in acquisitions is amortized over 40 years. Other intangibles are carried at cost and amortized using the straight-line method over their estimated lives of 5 to 17 years.

Net income per share is based on the weighted average number of shares outstanding during each year. The exercise of stock options would not have a material effect on net income per share.

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

2. Business Acquisitions

On December 31, 1990, the Company acquired certain assets from the FASTEK division of Eastman Technology, Inc. (ETI) for the manufacture of reverse osmosis membrane, rolled filters, membrane elements and melt-blown filters. The assets are capable of producing certain products currently produced by the Company in Minnetonka. The purchase method of accounting was used.

The acquisition was made for a total of approximately \$4,300, comprised of \$500 cash, \$3,400 financed through a short-term promissory note paid on March 1, 1991, and the remainder paid in the first quarter of 1991. Current assets of \$1,400 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share data)

property, plant and equipment of \$4,700 were acquired in the purchase. Cash and marketable securities were used to retire the note.

The following unaudited pro forma consolidated results of operation have been prepared as if the operations of the Company and FASTEK had been consolidated since the beginning of 1990 and includes amortization, royalty and income tax adjustments. The pro forma data is not indicative of the results to be anticipated in future periods, due to extensive changes made in pricing and in organization, facility, personnel and other costs. The current operation employs 21 people, compared to the pre-acquisition level of more than 50.

	1990
Sales	\$46,131
Net income	\$ 2,007
Net income per share	\$ 0.33

3. Marketable Securities

Marketable securities include municipal bonds, certificates of deposit, commercial paper, and other current investments. The market value of marketable securities was \$11,869 and \$9,033 on December 31, 1992 and 1991, respectively.

4. Inventories

Inventories consist of the following:

	December 31,	
	1992	1991
Finished goods	\$ 2,232	\$ 2,076
Work in process	3,929	4,152
Raw materials	6,208	7,882
	<u>\$12,369</u>	<u>\$14,110</u>

5. Long-term Investments

	December 31,	
	1992	1991
Pall Corporation Common Stock	\$1,233	\$1,233
Total Market Value	<u>\$3,236</u>	<u>\$3,271</u>

The Company had no net realized gain on long-term investments in 1992, compared to net gains of \$727 and \$247 in 1991 and 1990, respectively.

6. Other Accrued Liabilities

Other accrued liabilities consist of the following:

	December 31,	
	1992	1991
Warranty, start-up, litigation and other accruals	\$2,140	\$1,841
Acquisition liabilities	279	556
Customer deposits	989	600
Accrued property taxes, income taxes and other taxes	942	691
	<u>\$4,350</u>	<u>\$3,688</u>

The Company has no liability for post-employment or retirement benefits for health care, life insurance or other programs.

7. Debt

Long-term debt is as follows:

	December 31,	
	1992	1991
Promissory Notes; interest payable quarterly at the three month LIBOR rate plus 80 b.p.; due 1996 through 2001. The interest rate on December 31, 1992 was 4.24%.	\$10,000	\$10,000
Industrial revenue bonds (IRB's); interest payable monthly at 83% of the adjusted CD rate; due in 1993 through 1997. The interest rate on December 31, 1992 was 2.97%.	3,300	3,300
Notes payable to a municipality at 7.91% due 1992 through 2002.	221	246
Other	173	246
	<u>13,694</u>	<u>13,792</u>
Less current portion	473	95
	<u>\$13,221</u>	<u>\$13,697</u>

The long-term IRB debt is collateralized by real and personal property of the Company.

The aggregate maturities of outstanding long-term debt are: 1993 - \$473; 1994 - \$483; 1995 - \$489; 1996 - \$1,847; and 1997 - \$3,147.

The Company has a \$1,000 line of credit with a bank, with interest at the bank reference rate (6.0% at December 31, 1992) and which requires a 5% compensating cash balance. The line of credit was unused at year-end and the \$50 compensating balance is included in the balance of cash and cash equivalents.

The promissory notes contain a covenant which limits the payment of dividends to shareholders. At December 31, 1992 approximately \$15,780 of retained earnings was restricted under this covenant. In addition, the promissory notes and IRB debt contain certain restrictions related to ratios, indebtedness, tangible net worth and capital expenditures.

Cash payments for interest related to all debts of the Company were \$725; \$962; and \$1,099 for 1992, 1991, and 1990, respectively.

8. Stock Options

At December 31, 1992, the Company had reserved 141,658 common shares for issuance to key employees under the 1983 stock option plan. Options are issued at a price not less than market value on date of grant and become exercisable over a five-year period, after which they expire.

	1992	1991	1990
Options held by employees at December 31,	97,150	133,940	118,687
Exercise price range on options held at December 31,	\$ 5.45 - \$ 20.25	\$ 4.44 - \$ 20.25	\$ 3.33 - \$ 7.89
Number of options exercised during the year	39,788	30,466	15,750
Price range of options exercised during the year	\$ 4.44 - \$ 7.89	\$ 3.33 - \$ 7.45	\$ 3.33 - \$ 5.67
Exercisable options held at December 31,	32,711	39,377	43,594
Exercise price range of exercisable options	\$ 5.45 - \$ 20.25	\$ 4.44 - \$ 10.83	\$ 3.33 - \$ 7.89

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share data)

The Company also has an employee stock purchase plan with 68,740 common shares remaining unissued. Employees may purchase common shares of the Company at a price of 85% of market price.

The following is a summary of shares issued under this plan:

	1992	1991	1990
Number of shares	11,640	9,416	15,750
Average price per share	\$14.07	\$13.75	\$ 6.91

The Company had 500,000 authorized and unissued shares of preferred stock at December 31, 1992 and 1991.

9. Income Taxes

Income tax expense consists of:

	Year Ended December 31,		
	1992	1991	1990
Current:			
Federal	\$1,778	\$1,661	\$1,897
State	180	188	141
Deferred:			
Depreciation, including uniform capitalization effect	(213)	12	(92)
Allowance for doubtful accounts, start-up, warranty, inventory and litigation accruals	214	109	(185)
Gains (losses) on securities	(11)	(57)	94
Vacation accrual	(10)	(42)	(46)
Other	(83)	31	(79)
	<u>\$1,855</u>	<u>\$1,902</u>	<u>\$1,730</u>

Cash payments for income taxes were \$1,617; \$1,707; and \$1,717 for 1992, 1991, and 1990, respectively.

A reconciliation of the income taxes computed at the Federal statutory rate to the Company's income tax expense is as follows:

	Year Ended December 31,		
	1992	1991	1990
Taxes at Federal rate (34%)	\$2,027	\$1,973	\$1,851
Increase (decrease) resulting from:			
State taxes, net of Federal tax benefit	85	120	70
Foreign Sales Corp. benefit	(112)	(82)	(78)
Tax credits	—	(22)	(31)
Tax exempt interest/dividend deduction	(146)	(133)	(136)
Other	1	46	54
	<u>\$1,855</u>	<u>\$1,902</u>	<u>\$1,730</u>

During February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the Company to adjust its deferred tax assets and liabilities to reflect current tax rates. The Company adopted the provisions of SFAS 109 in reporting its financial results for 1992. The result was to reduce previously recorded deferred income taxes and increase net income by \$420, which has been recorded as a cumulative effect of a change in accounting principle. Adoption of this standard did not have a material effect on income before the accounting change for the year ended December 31, 1992.

10. Deferred Tax Assets and Liabilities

Deferred Tax Assets as of December 31, 1992 are as follows:

Current assets:	
Allowance for doubtful accounts, start-up, warranty, inventory, and litigation accruals	\$1,421
Net operating loss carryforward	141
Less: Valuation allowance for net operating loss carryforward	(141)
Other	53
Total current deferred tax assets	<u>\$1,474</u>

Deferred Tax Liabilities as of December 31, 1992 are as follows:

Non-current liabilities:	
Depreciation, including uniform capitalization effect	\$2,524
Other	154
Total non-current deferred tax liabilities	<u>\$2,678</u>

11. Sales and Segment Information

The Company as a single business segment, designs, manufactures and markets machines, systems and components used in the processing of fluids. The Company's manufacturing and distribution operations are located within the United States, except for a limited number in Asia and Europe. The Company has sales and service facilities in Asia and Europe and also sells its products and systems worldwide through direct sales engineers and independent distributors located throughout the United States and various foreign countries.

Net export sales by foreign geographic area are as follows:

	December 31,		
	1992	1991	1990
Asia	\$ 6,268	\$ 5,387	\$4,984
Europe	2,692	2,823	2,349
North America	2,148	1,732	753
Other Areas	715	540	635
	<u>\$11,823</u>	<u>\$10,482</u>	<u>\$8,721</u>

12. Commitments and Contingencies

The Company leases facilities for sales, service or manufacturing purposes in Minnesota, Massachusetts, California, Arizona, Switzerland, Hong Kong, Singapore, Indonesia, and Thailand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except share data)

Future minimum lease payments on all operating leases of \$1,952 are as follows: 1993 - \$648; 1994 - \$577; 1995 - \$319; 1996 - \$237; 1997 - \$155; and beyond 1997 - \$16. Rent expense for the past three years was: 1992 - \$885; 1991 - \$898; and 1990 - \$789.

The Company is involved in certain legal actions arising in the ordinary course of business. It is the opinion of management, based on the advice of legal counsel, that such litigation and claims will be resolved without a material effect on the Company's financial position or results of operations.

13. Potential Merger

On December 23, 1992, the Company signed a letter of intent to merge with Autotrol Corporation in a stock-for-stock transaction that is intended to be treated as a "pooling of interests" for accounting purposes. Autotrol's principal business is the manufacture and sale of valves, controls, and measuring devices related to water processing. Autotrol sold

the assets of its Aquatrol business unit in November 1992.

The transaction is subject to due diligence examination by Osmonics and the completion of a definitive agreement. The merger is expected to add approximately \$33,000 to the Company's annual sales and have a positive effect on earnings per share, with no significant impact on liquidity or capital resources. The transaction is expected to close in the second quarter of calendar 1993.

14. Stock Split

In April 1991, the Company approved a three-for-two stock split in the form of a 50% stock dividend to shareholders of record on April 22, 1991. In May 1990, the Company also approved a three-for-two stock split in the form of a 50% stock dividend to shareholders of record on June 1, 1990. All shares and per share amounts have been restated to reflect the splits.

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated balance sheets of Osmonics, Inc. as of December 31, 1992 and 1991 and the related consolidated statements of income, cash flows and changes in common shareholders' equity for each of the three years in the period ended December 31, 1992. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Osmonics, Inc. at December 31, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the financial statements, in 1992 the Company changed its method of accounting for income taxes to conform with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Deloitte + Touche

Deloitte + Touche
Minneapolis, Minnesota
February 5, 1993

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (Dollars in thousands, except share data)

As an aid to understanding the Company's operating results, the following table indicates the percentage of sales that each income statement item represents, and the percentage increase or decrease in such items for the years indicated.

	Year ended December 31,			Percentage Increase (Decrease)	
	1992	1991	1990	1992 vs. 1991	1991 vs. 1990
	Sales	100.0%	100.0%	100.0%	8.1%
Cost of sales	57.4	57.6	56.4	7.8	9.6
Gross profit	42.6	42.4	43.6	8.6	4.3
Selling, general and administrative	24.9	24.6	24.4	9.1	8.6
Research, development and engineering	5.9	6.3	5.8	2.2	15.6
Operating expenses	30.8	30.9	30.2	7.7	10.0
Income from operations	11.8	11.5	13.4	11.0	(8.4)
Other income (expense)	—	0.9	(0.9)	(96.2)	—
Income before income taxes and cumulative effect of accounting change	11.8	12.4	12.5	2.7	6.6
Income taxes	3.7	4.1	4.0	(2.5)	9.9
Income before cumulative effect of accounting change	8.1	8.3	8.5	5.3	5.1
Cumulative effect of accounting change	0.9	—	—	—	—
Net income	9.0%	8.3%	8.5%	16.0%	5.1%

Sales:

Sales for 1992 increased by 8% over 1991 and sales for 1991 increased by 7% over 1990. The Company's sales are made up of equipment and replaceable components. Replaceable components led the 1992 sales increase comprising 53% of sales, versus 52% and 48% in 1991 and 1990, respectively. International sales increased at a slightly higher rate than domestic sales in 1992.

The dollar amount of the Company's backlog of orders considered to be firm at December 31, 1992 was \$12,900. The comparable backlog at December 31, 1991 was \$11,000. The Company believes that its backlog at anytime is not necessarily indicative of annual sales. The business of the Company is not subject to significant seasonal variations.

The increase in sales for 1991 resulted from the addition of new product lines acquired from the FASTEK Division of

Eastman Kodak on December 31, 1990 and increased sales of core products, both internationally and domestically.

Selective price increases averaged less than 2% from 1991 to 1992, and less than 4% from 1990 to 1991.

Gross Margins:

Gross margins for 1992 increased to 42.6% of sales as a result of a higher mix of replaceable product sales, improved pricing on equipment sales and reduced manufacturing costs.

The decrease in gross margin for 1991, as compared to 1990, was partly due to the inclusion of the FASTEK business and facility in Syracuse, acquired at the end of 1990. It is operating at a lower level of plant utilization than other facilities. The decrease was also due to increased price competition on sales of complex equipment systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (Dollars in thousands, except share data)

Operating Expenses:

Selling, general and administrative expenses increased slightly as a percentage of sales in both 1992 and 1991 as compared to 1990. The increases were attributable to increased marketing programs and expanded domestic and international selling efforts.

Research, development and engineering expense increased 2% in 1992 and 16% in 1991, reflecting continued development efforts related to recent business acquisitions, and the Company's increased commitment to product development.

Other Income (Expense):

During 1992, net interest income increased due to higher invested balances, and net interest expense decreased due to lower interest rates. Other income was also affected in 1992 by the sale of certain short-term investments at a pretax gain of \$199. In 1991, certain long-term investments were sold by the Company at a pretax gain of \$1,028.

The 1991 pretax gain of \$1,028 on the sale of certain long-term investments caused the change in other income (expense) in 1991 as compared to 1990. Decreased net interest expense due to lower interest rates further contributed to the 1991 change from 1990.

Income Taxes:

The Company's effective tax rates during 1992, 1991 and 1990 were 31%, 33%, and 32%, respectively. The decrease in the effective tax rate in 1992, as compared to 1991, is primarily due to an increase in the FSC (Foreign Sales Corporation) benefits, an increase in tax exempt investment income, and lower combined state taxes. The increase in the effective tax rate in 1991 as compared to 1990, resulted primarily from increased state income taxes.

Cumulative Effect of Accounting Change:

The Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," in reporting its financial results for 1992 (see Note 9 to the financial statements). The result was to reduce previously recorded deferred income taxes and increase net income by \$420, which has been recorded as a cumulative effect of a change in accounting principle.

Liquidity and Capital Resources:

At December 31, 1992, the Company had cash and cash equivalents of \$4,304 and marketable securities of \$11,426 versus \$3,279 and \$8,571, respectively, at December 31, 1991. The net increase in cash, cash equivalents and marketable

securities resulted from cash flows generated from operations in 1992. The current ratio remained at 3.7 as of December 31, 1992, equal to the year-end 1991 current ratio.

Net cash provided from operations in 1992, 1991, and 1990 amounted to \$6,484, \$4,313, and \$5,430, respectively. Inventory turns were 2.2 for 1992, compared to 1.9 for 1991, and 2.2 in 1990.

The Company's capital expenditures in 1992 were \$3,102 compared to \$2,061 in 1991 and \$1,820 in 1990. In September 1992, the Company completed the purchase of a 50,000 square-foot facility in Phoenix, Arizona for \$975, and has relocated the operations of its OREC business unit to this facility. The Company anticipates that capital expenditures in 1993 will be similar to the 1992 level due to planned capital projects to improve production processes and office automation.

The Company believes that its current cash and investment position, its cash flow from operations, and amounts available from bank credit will be adequate to meet its anticipated cash needs for working capital, capital expenditure, and potential acquisitions during 1993.

The Company has not paid cash dividends on its common shares. The Board of Directors currently intends to retain its earnings for the expansion of the Company's business.

Factors Affecting Future Performance:

The Company believes that in most cases it has been and will be able to increase selling prices in response to increases in the cost of raw materials on a timely basis.

The Company does not have any post-employment, retirement or welfare benefits; therefore, Statement of Financial Accounting Standards No. 106 and No. 112 will have no impact on the consolidated financial statements.

On December 23, 1992, the Company signed a letter of intent to merge with Autotrol Corporation in a stock-for-stock transaction that is intended to be treated as a "pooling of interests" for accounting purposes. Autotrol's principal business is the manufacture and sale of valves, controls, and measuring devices related to water processing. Autotrol sold the assets of its Aquatrol business unit in November 1992.

The transaction is subject to due diligence examination by Osmonics and the completion of a definitive agreement. The merger is expected to add approximately \$33,000 to the Company's annual sales and have a positive effect on earnings per share, with no significant impact on liquidity or capital resources. The transaction is expected to close in the second quarter of calendar 1993.

SELECTED FINANCIAL DATA (In thousands except per share amounts)

INCOME DATA:

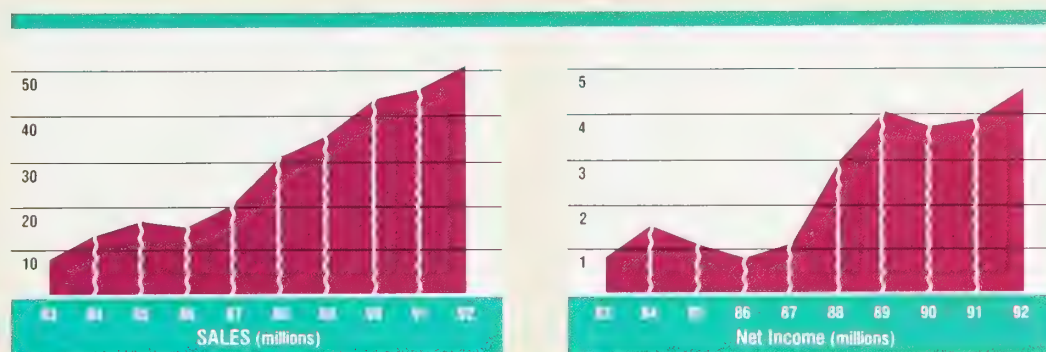
	Year Ended December 31,									
	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Sales	\$50,541	\$46,738	\$43,553	\$36,223	\$31,058	\$20,464	\$15,472	\$16,826	\$13,126	\$8,066
Gross profit	21,507	19,805	18,985	16,213	13,554	8,384	6,689	7,823	6,478	3,803
Pretax income	5,963	5,804	5,444	6,075	4,420	1,616	1,166	1,635	2,536	1,258
Income taxes	1,855	1,902	1,730	2,028	1,430	465	330	520	1,017	440
Net income	4,528 ^(a)	3,902	3,714	4,047	2,990	1,151	836	1,115	1,519	818
Net income per share	\$0.75 ^(a)	\$0.65	\$0.60	\$0.51	\$0.38	\$0.15	\$0.12	\$0.16	\$0.22	\$0.12
Average shares outstanding	6,043	5,999	6,164	7,902	7,880	7,867	7,182	6,237	5,823	5,823

^(a)Includes an increase in earnings of \$420 (\$0.07 per share) as a result of adopting the Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes."

BALANCE SHEET DATA:

	Year Ended December 31,									
	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Total assets	\$60,300	\$54,931	\$54,370	\$45,884	\$43,430	\$37,715	\$33,328	\$24,550	\$22,967	\$20,869
Working capital	28,238	24,722	19,851	21,117	15,707	13,836	17,660	9,589	8,965	7,569
Long-term debt	13,221	13,697	13,761	3,788	3,664	3,753	3,618	2,556	3,693	4,214
Shareholders' equity	33,793	28,891	24,720	33,067	28,909	25,598	24,664	16,786	10,740	9,470

OUR TEN YEAR RECORD



QUARTERLY INCOME DATA (In thousands except per share amounts)

QUARTERLY INCOME DATA - 1992 (unaudited):

	Quarter Ended			
	March 31	June 30	September 30	December 31
Sales	\$12,596	\$11,972	\$11,711	\$14,262
Gross profit	5,051	5,073	5,175	6,208
Net income	1,248 ^(a)	914	971	1,395
Net income per share	0.21 ^(a)	0.15	0.16	0.23

^(a)Includes an increase in earnings of \$420 (\$0.07 per share) as a result of adopting the Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes."

QUARTERLY INCOME DATA - 1991

	Quarter Ended			
	March 31	June 30	September 30	December 31
Sales	\$10,254	\$12,998	\$11,848	\$11,638
Gross profit	4,407	5,596	5,065	4,737
Net income	1,045	1,075	1,009	773
Net income per share	0.17	0.18	0.17	0.13

SHAREHOLDER INFORMATION

COMMON STOCK DATA

The Company's common stock is traded in the NASDAQ National Market System under the symbol "OSMO". The table represents the high and low transaction prices for the most recent two years.

Shareholders of record on March 31, 1993 numbered 1275. The Company estimates that an additional 1300 shareholders own stock held for their account at brokerage firms and financial institutions.

Quarterly Prices*	1992		1991	
	High	Low	High	Low
First Quarter	17½	13¾	15¾	9¾
Second Quarter	17	13¾	21	12½
Third Quarter	18¼	13¾	19¾	14
Fourth Quarter	20½	14¾	20	12¼

*Adjusted for splits

DIRECTORS

D. Dean Spatz, Chairman of the Board,
Founder and President/CEO of the Company

Ralph E. Crump, Founder and Past
Chairman/CEO, Frigitrionics, Inc.

Ruth Carol Spatz, Founder and Corporate
Secretary of the Company

Michael L. Snow, Partner, Maslon Edelman
Borman & Brand

Verity C. Smith, Founder, Vaponics, Inc.

ANNUAL MEETING

The annual Shareholders Meeting will be held at the Corporate Offices, 5951 Clearwater Drive, Minnetonka, MN 55343 in the Training Center.

Proxy materials and a notice of the annual Shareholders Meeting will be sent to shareholders of record in a separate mailing because of the planned acquisition of Autotrol Corporation.

10K REPORT

A copy of the 1992 Form 10K, as filed with the Securities and Exchange Commission, will be mailed to any shareholder upon written request to:

Ruth Carol Spatz
Corporate Secretary
OSMONICS, INC.
5951 Clearwater Drive
Minnetonka, Minnesota 55343-8990 USA

TRANSFER AGENT & REGISTRAR

Norwest Bank MN N.A.
161 N. Concord Exchange
P.O. Box 738
South St. Paul, Minnesota 55075-0738

OFFICERS

D. Dean Spatz, President,
Chief Executive Officer
James J. Carbonari,
Vice President Sales & Marketing
James W. Detert, Vice President Operations
Howard W. Dicke, Vice President Human
Resources & Corporate Development,
and Treasurer
Kenneth E. Jondahl,
Vice President International
Andrew T. Rensink,
Vice President Technology
L. Lee Runzheimer, Chief Financial Officer and
Vice President Administration
Ruth Carol Spatz, Corporate Secretary

CORPORATE INFORMATION

Corporate Headquarters

5951 Clearwater Drive
Minnetonka, Minnesota 55343-8990 USA
Telex: 29-0847
Telephone: 612/933-2277
Fax: 612/933-0141

Subsidiaries & Sales Offices

Osmonics Silicon Valley
Foster City, California
Telephone: 415/358-9056
Fax: 415/358-9050

Vaponics, Inc.
Rockland, Massachusetts
Telephone: 617/982-9900
Fax: 617/982-7108

Poretics Corp.
Livermore, California
Telephone: 510/373-0500
Fax: 510/373-1725

MACE Products
Upland, California
Telephone: 909/981-2770
Fax: 909/981-8071

**Ozone Research &
Equipment Corp.**
Phoenix, Arizona
Telephone: 602/931-7332
Fax: 602/931-7727

Syracuse Facility
Liverpool, New York
Telephone: 315/453-6100
Fax: 315/451-1664

**Osmonics Europa, S.A./
Aqua Media International**
Valangin (Neuchâtel)
SWITZERLAND
Telephone: 41-38-572233
Fax: 41-38-572255

Osmonics Asia/Pacific, Ltd.
Primary Office
Bangkok, THAILAND
Telephone: 66-2-39-13214
FAX: 66-2-39-18183

Kowloon, HONG KONG
Telephone: 852-311-1829
Fax: 852-721-1466

Jakarta, INDONESIA
Telephone: 62-21-380-7844
Fax: 62-21-380-7847

SINGAPORE
Telephone: 65-345-4136
Fax: 65-345-4193

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MENTREX, VENTREX, SPIRALTEK,
PURTREX, HYTREX II, SELEX, FASTEK
and Hy[®] are trademarks of Osmonics,
Inc. OREC is a trademark of Ozone
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MACE is a trademark of GHIA, Inc.
Teflon is a trademark of E.I. du Pont de
Nemours and Company, Inc.

OSMONICS

5951 CLEARWATER DRIVE
MINNETONKA, MINNESOTA 55343-8980 USA
TELEPHONE: 612/933-2277
TELEX: 28-8847 Fax: 612/933-0141



corp: AUTR OSM OSMD indu: FOL INM
Osmonics Completes Buy Of Autotrol Corp. OSMD AUTR
MINNETONKA, Minn. OS Monics Inc. (OSMD) said it has completed the
previously reported acquisition of Autotrol Corp. (AUTR).
In a press release, the company said all outstanding common shares of
Autotrol were converted into common Osmonics shares. The company said
shareholders will receive 0.77 common Osmonics shares in exchange for each of
their Autotrol shares.
(END) DOW JONES NEWS 10-15 77
4:17 PM

S4083/125
CN

pg 1 10:46:24 94/ 2/17

NEWS STORY KEY S3705/108 SOURCE: DJ DATE: 11/91 TIME: 16:12 PAGE: 1/2
corp: AUTR OSM OSMD indu: ERN POL
Osmonics Inc. 3Q Net 21c/Shr Vs 8c, Both Pro Forma OSMD
3rd Quar Sept. 30:

	1993	1992
Sales	\$21,623,000	\$19,251,000
Net income	1,803,000	a 707,000
Avg shrs	8,416,000	8,778,000
Shr earns		
Net income	.21	a .08

	1993	1992
9 Months:		
Sales	66,485,000	61,925,000
Net income	7,754,000	b 2,828,000
Avg shrs	8,411,000	8,768,000
Shr earns		
Net income	.68	b .46

a. Includes a loss of \$74,000 from discontinued operations.
b. Includes a loss of \$191,000 from discontinued operations and a gain of
\$420,000 from an accounting change.
Figures are pro forma, assuming the Autotrol Corp. (AUTR) merger, which will

S3705/108
CN

pg 1 10:46:58 94/ 2/17

NEWS STORY KEY S3705/108 SOURCE: DJ DATE: 11/91 TIME: 16:27 PAGE: 2/2
corp: AUTR OSM OSMD indu: ERN POL
Osmonics Inc. 3Q Net 21c/Shr Vs 8c, Both Pro Forma OSMD

be accounted for as a pooling of interests, took place as of Sept. 30, 1993,
even though the transaction was not consummated until Oct. 15, 1993.

Osmonics Inc. (OSMD) said it expects
fourth-quarter sales to be similar to year-ago levels and said pro forma net
income for the quarter will be above year-ago levels due to non-operating
charges incurred by Autotrol during the fourth quarter a year ago.

Autotrol reported a loss of \$4.6 million, or \$1.72 a share, in its fourth
quarter ended Dec. 31, 1992, including a loss of \$591,792 from embezzlement at
its French unit and \$3.2 million in losses from discontinued operations.
Osmonics reported net income of \$1.4 million, or 23 cents a share, in its
fourth quarter ended Dec. 31, 1992.

(END) DOW JONES NEWS 11-01-93
4:23 PM

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CN

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NEWS STORY KEY S3705/108 SOURCE: DJ DATE: 11/91 TIME: 16:21 PAGE: 2/2
corp: AUTR OSM OSMD indu: ERN POL
Osmonics Inc. 3Q Net 21c/shr Vs 8c, Both Pro Forma OSMD

be accounted for as a pooling of interests, took place as of Sept. 30, 1993,
even though the transaction was not consummated until Oct. 15, 1993.

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fourth quarter ended Dec. 31, 1992.

(END) DOW JONES NEWS 11-01 93
4:23 PM

S3705/108
CN

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NEWS STORY KEY S3219/58 SOURCE: DJ DATE: 12/21 TIME: 18:00 PAGE: 1/1
corp: OSM OSMD indu: STX XCH
Osmonics Files To Be Listed On New York Stock Exchange OSMD

MINNETONKA, Minn. OS Monics Inc. (OSMD) today said it has filed to be
listed on the New York Stock Exchange.

In a press release, the company said it expects its stock to begin trading on
the exchange in mid-January under the symbol OSM.

Osmonics said it has 2.4 million shares outstanding.

(END) DOW JONES NEWS 12-21-93
6:00 PM

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CN

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Osmonics, Inc.

November 19, 1993

4882

NASDAQ Symbol OSMO (Incl. in Nat'l Market)

Price	Range	P-E Ratio	Dividend	Yield	S&P Ranking	Beta
Nov. 11'93 20	1993 21 1/2-16	22	None	None	B	2.02

SUMMARY

Osmonics is a leading manufacturer and marketer of filtration and purification membrane equipment, multistage centrifugal pumps and disposable filter elements used in pollution control, water purification, desalting and industrial processing. Earnings rose in 1992, as strong fourth quarter results offset lower earnings through the first nine months. Earnings continued to rise in the first nine months of 1993 on higher sales and cost controls. In October 1993, the company completed the acquisition of Autotrol Corp.

BUSINESS SUMMARY

Osmonics, Inc. designs, manufactures and sells machines, systems and components used in the separation of fluids into their constituent parts. Its processing equipment, utilizing disposable, semipermeable membranes and other filter materials, employs crossflow filtration (including reverse osmosis, nanofiltration, ultrafiltration and microfiltration), normal filtration (including microfiltration and particle filtration), coalescing filtration, ion exchange, chromatography, ozonation and distillation.

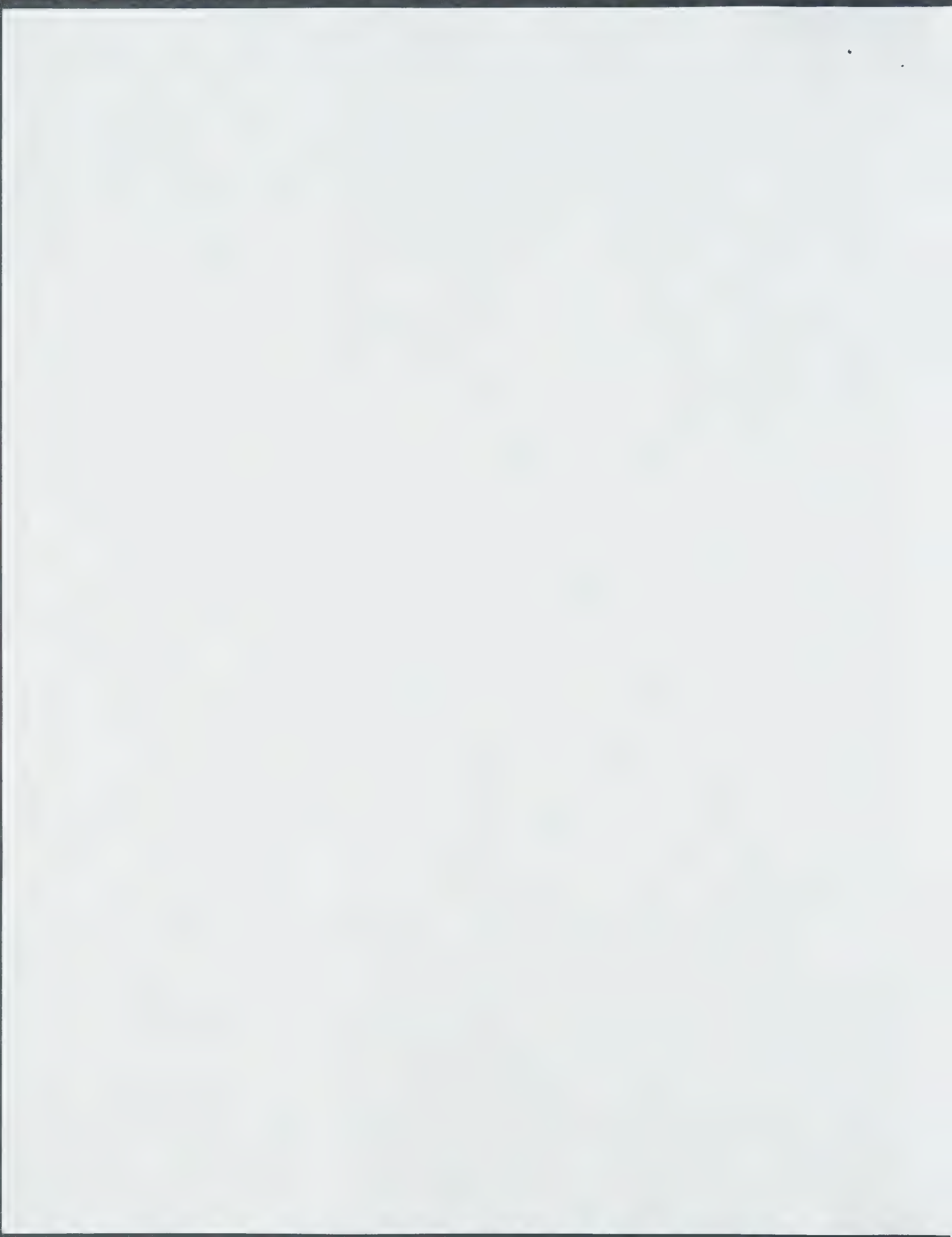
Uses of the company's products include fractionation, preferential separation and purification in connection with such processes as ultrapurification of water and industrial solutions, dewatering and recycling of commercial and industrial fluids, pollution control and seawater desalting. Principal domestic and international markets, accounting for more than 50% of its sales, include the electronics, potable water, healthcare, biotechnology, food and beverage, chemical processing and power generation industries.

Products are divided into two groups, equipment and disposable components, which accounted for 47% and 53% of 1992 net sales, respectively.

Equipment includes separators, filter elements, ion exchange resin and filter cartridges sold with machines; pumps, valves, fittings, chemicals and other ancillary equipment sold with systems; and pumps sold separately.

Replaceable components include only those separators, elements, cartridges, membranes, filters and other components sold as replacements or to other original equipment manufacturers.

Nearly all manufacturing operations are located in the U.S., but sales offices are also located in Hong Kong, Singapore, Indonesia, Switzerland and Thailand. Net export sales in 1992 totaled \$11.8



million, and were derived from Asia (53%), Europe (23%), North America (18%) and other (6%).

IMPORTANT DEVELOPMENTS

Nov. '93: Osmonics said it expects fourth quarter sales to be close to those of last year, and pro forma net income to exceed that of the 1992 period, due to non-operating charges incurred by Autotrol in the year ago quarter.

Oct. '93: The company completed the acquisition of Autotrol Corp., a designer of automatic controls for water conditioning systems with annual sales of about \$36 million, through an exchange of stock. Each Autotrol share was converted into 0.77 shares of OSMO common stock. The conversion ratio represents a slight adjustment from the previously announced conversion ratio, resulting from refinements in the accounting and tax treatment of certain aspects of the embezzlement at Autotrol's French subsidiary.

NEXT EARNINGS REPORT EXPECTED IN LATE FEBRUARY.

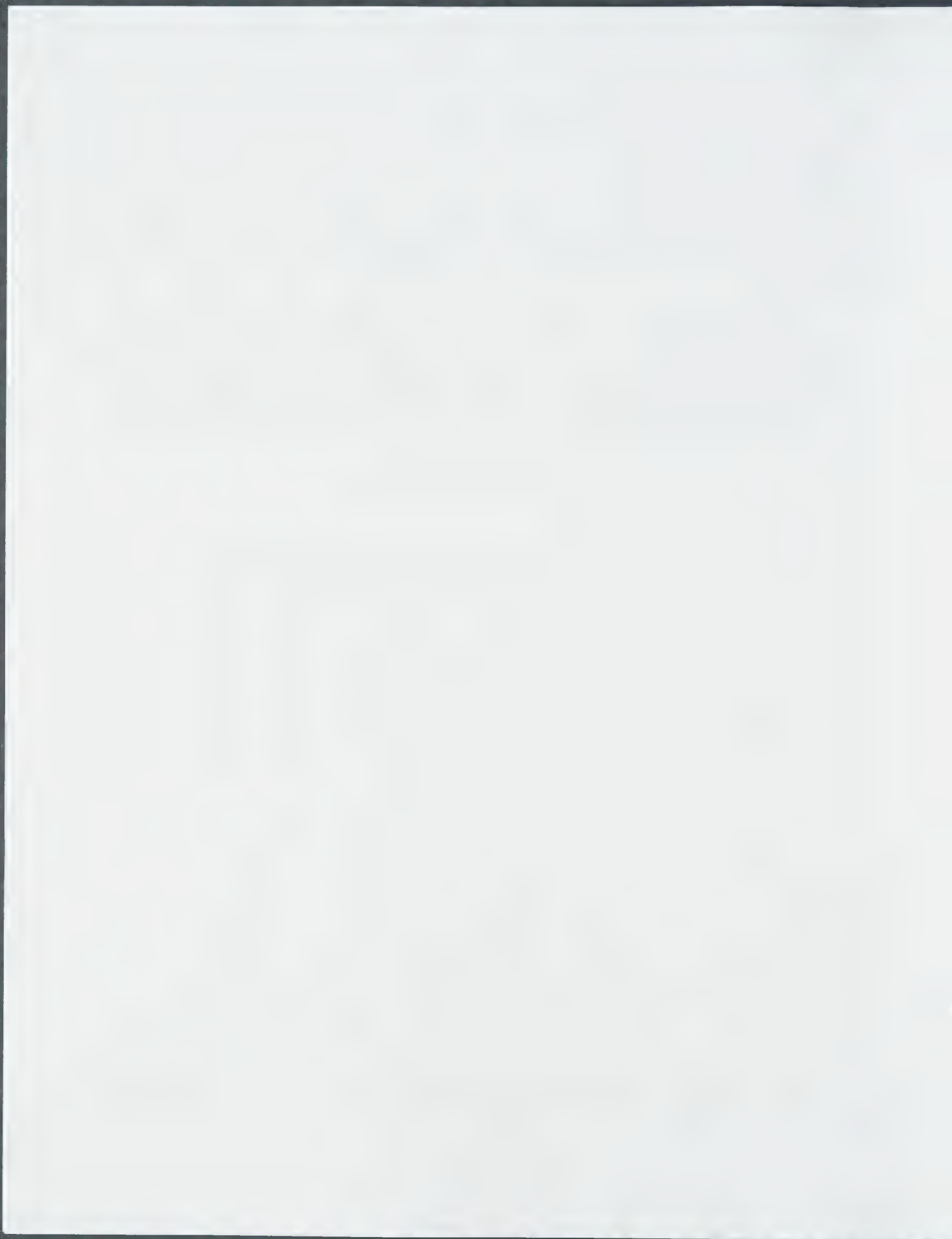
PER SHARE DATA(\$)

Yr. End Dec. 31	1992	1991	1990	1989(1)	1988
Tangible Bk. Val.	(2)5.57	(2)4.80	(2)4.13	(2)4.18	3.54
Cash Flow	1.05	1.03	0.94	0.68	0.53
Earnings(3)	0.68	0.65	0.60	0.51	0.38
Dividends	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil
Prices--High	20 1/2	21	13 3/8	10 1/8	7 1/4
Low	13	9 3/8	5 1/2	5 7/8	3 1/8
P/E Ratio--	30-19	32-14	22-9	20-12	19-8

(TABLE CONTINUED)

Yr. End Dec. 31	1987(1)	1986	1985	1984(1)	1983(1)
Tangible Bk. Val.	3.11	3.14	2.59	1.85	1.63
Cash Flow	0.27	0.27	0.29	0.35	0.21
Earnings(3)	0.15	0.11	0.17	0.22	0.12
Dividends	Nil	Nil	Nil	Nil	Nil
Payout Ratio	Nil	Nil	Nil	Nil	Nil
Prices--High	5 3/4	7 3/8	7 3/4	4 1/2	4 7/8
Low	2 1/4	3 1/8	4 3/8	2 7/8	2 5/8
P/E Ratio--	39-15	64-27	47-27	20-14	40-22

*** NOTE: Data as orig. repts. Adj. for stk. divs. of 50% May 1991, 50% Jun. 1990, 50% Apr. 1985. 1.Refl. merger or acq. 2.Incl. intangibles. 3. Bef. spec. item(s) of +0.07 in 1992.



INCOME DATA(Million \$)

Year Ended Dec. 31	Revs.	Oper. Inc.	% Oper. Inc. of Revs.	Cap. Exp.	Depr.	Int. Exp.
1992	50.5	8.17	16.2	3.10	2.22	0.67
1991	46.7	7.62	16.3	2.06	2.27	1.10
1990	43.6	7.87	18.1	1.82	2.03	1.27
(1) 1989	36.2	6.88	19.0	1.30	1.33	0.32
1988	31.1	5.34	17.2	1.34	1.17	0.11
(1) 1987	20.5	2.32	11.3	0.86	0.98	0.24
1986	15.5	1.68	10.8	2.40	1.06	0.25
1985	16.8	2.92	17.4	0.76	0.79	0.37
(1) 1984	13.1	3.28	25.0	0.68	0.77	0.43
(1) 1983	8.1	1.69	20.9	5.85	0.48	0.42

(TABLE CONTINUED)

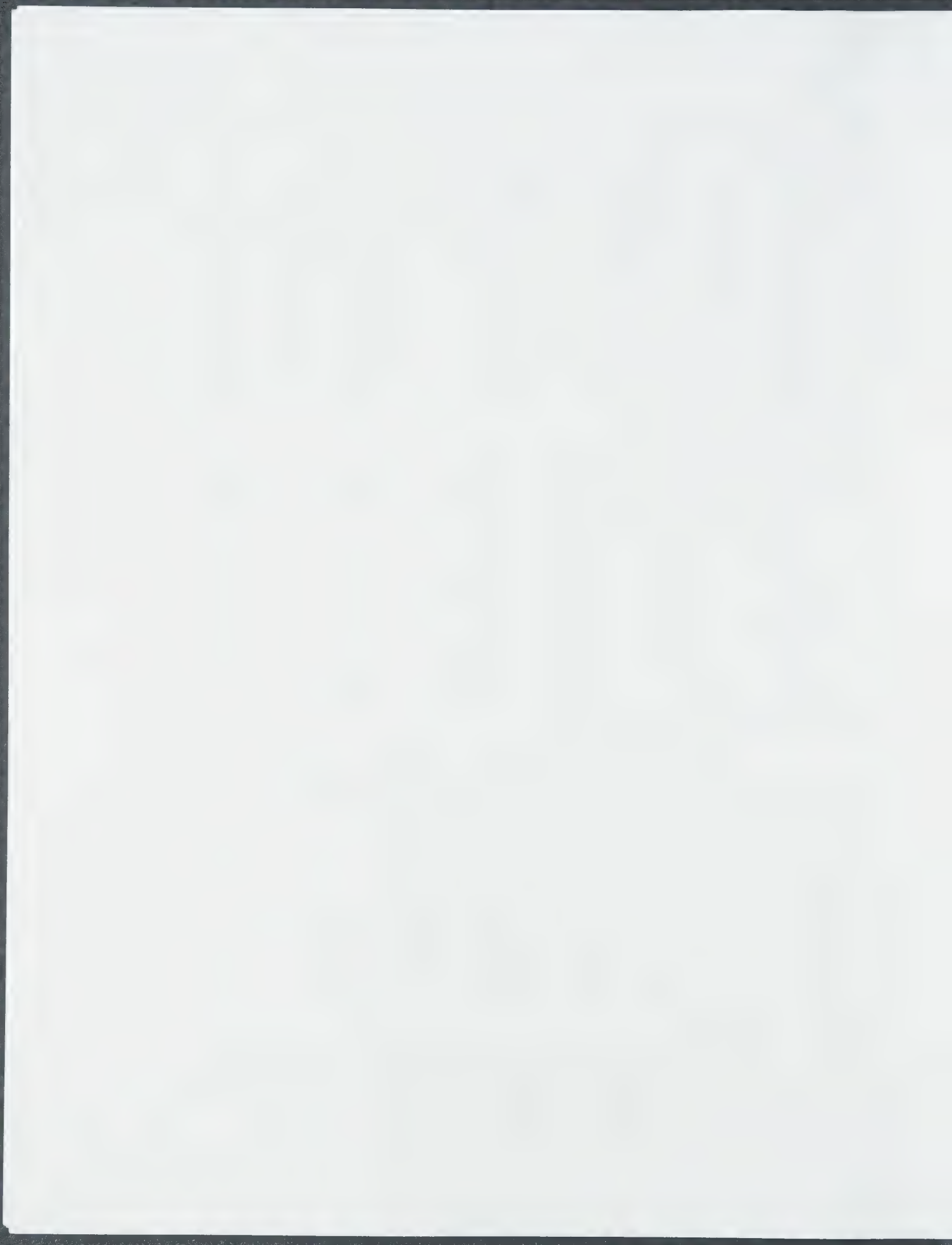
Year Ended Dec. 31	Net Bef. Taxes	Eff. Tax Rate	Net Inc. (2)	% Net Inc. of Revs.	Cash Flow
1992	5.96	31.1%	4.11	8.1	6.33
1991	5.80	32.8%	3.90	8.3	6.17
1990	5.44	31.8%	3.71	8.5	5.74
(1) 1989	6.08	33.4%	4.05	11.2	5.38
1988	4.42	32.4%	2.99	9.6	4.16
(1) 1987	1.62	28.8%	1.15	5.6	2.13
1986	1.17	28.3%	0.84	5.4	1.90
1985	1.64	31.8%	1.12	6.6	1.80
(1) 1984	2.54	40.1%	1.52	11.6	2.04
(1) 1983	1.26	35.0%	0.82	10.1	1.20

BALANCE SHEET DATA(Million \$)

Dec. 31	Cash	-----Curr.----- Assets	Liab.	Ratio	Total Assets	% Ret. on Assets
1992	15.7	38.6	10.4	3.7	60.3	7.1
1991	11.9	33.7	9.0	3.7	54.9	7.1
1990	11.4	32.0	12.1	2.6	54.4	8.3
1989	9.6	27.1	6.0	4.5	45.9	9.0
1988	6.6	23.7	8.0	3.0	43.4	7.4
1987	7.3	19.3	5.5	3.5	37.7	3.2
1986	11.5	20.3	2.7	7.6	33.3	2.7
1985	4.6	13.2	3.6	3.7	24.5	4.7
1984	4.5	11.8	2.8	4.2	23.0	6.9
1983	4.0	10.0	2.5	4.1	20.9	4.7

(TABLE CONTINUED)

Dec. 31	Long Term Debt	Common Equity	Total Cap.	% LT Debt of Cap.	% Ret. on Equity
1992	13.2	33.8	49.7	26.6	13.1
1991	13.7	28.9	45.5	30.1	14.5



1990	13.8	24.7	41.4	33.2	14.9
1989	3.8	33.1	39.9	9.5	13.0
1988	3.7	28.9	35.5	10.3	11.0
1987	3.8	25.6	32.2	11.6	4.6
1986	3.6	24.7	30.7	11.8	3.7
1985	2.6	16.8	21.0	12.2	7.4
1984	3.7	10.7	20.1	18.3	12.6
1983	4.0	9.5	18.4	21.8	7.8

*** NOTE: Data as orig. reprd. 1.Refl. merger or acq. 2.Bef. spec. item(s).

NET SALES(Million \$)

Quarter:	1993(1)	1992	1991	1990
Mar.....	---	12.6	10.3	10.1
Jun.....	(2)44.8	12.0	13.0	11.2
Sep.....	21.7	11.7	11.8	12.1
Dec.....		14.3	11.6	10.2
		50.5	46.7	43.6

Net sales (pro forma) for the nine months ended September 30, 1993, advanced 7.4%, year to year, primarily reflecting increased equipment and systems volume, and the inclusion of Autotrol. Profitability benefited from the higher revenues, improved manufacturing efficiencies and cost controls, and income from continuing operations climbed 60%, to \$5,754,000 (\$0.68 a share), from a restated \$3,599,000 (\$0.43). Results in 1992 exclude a special credit of \$0.05 a share from the cumulative effect of an accounting change, and a \$0.02 a share loss from discontinued operations.

COMMON SHARE EARNINGS(\$)

Quarter:	1993(1)	1992	1991	1990
Mar.....	---	0.14	0.17	0.15
Jun.....	(2)0.47	0.15	0.18	0.15
Sep.....	0.21	0.16	0.17	0.17
Dec.....		0.23	0.13	0.13
		0.68	0.65	0.60

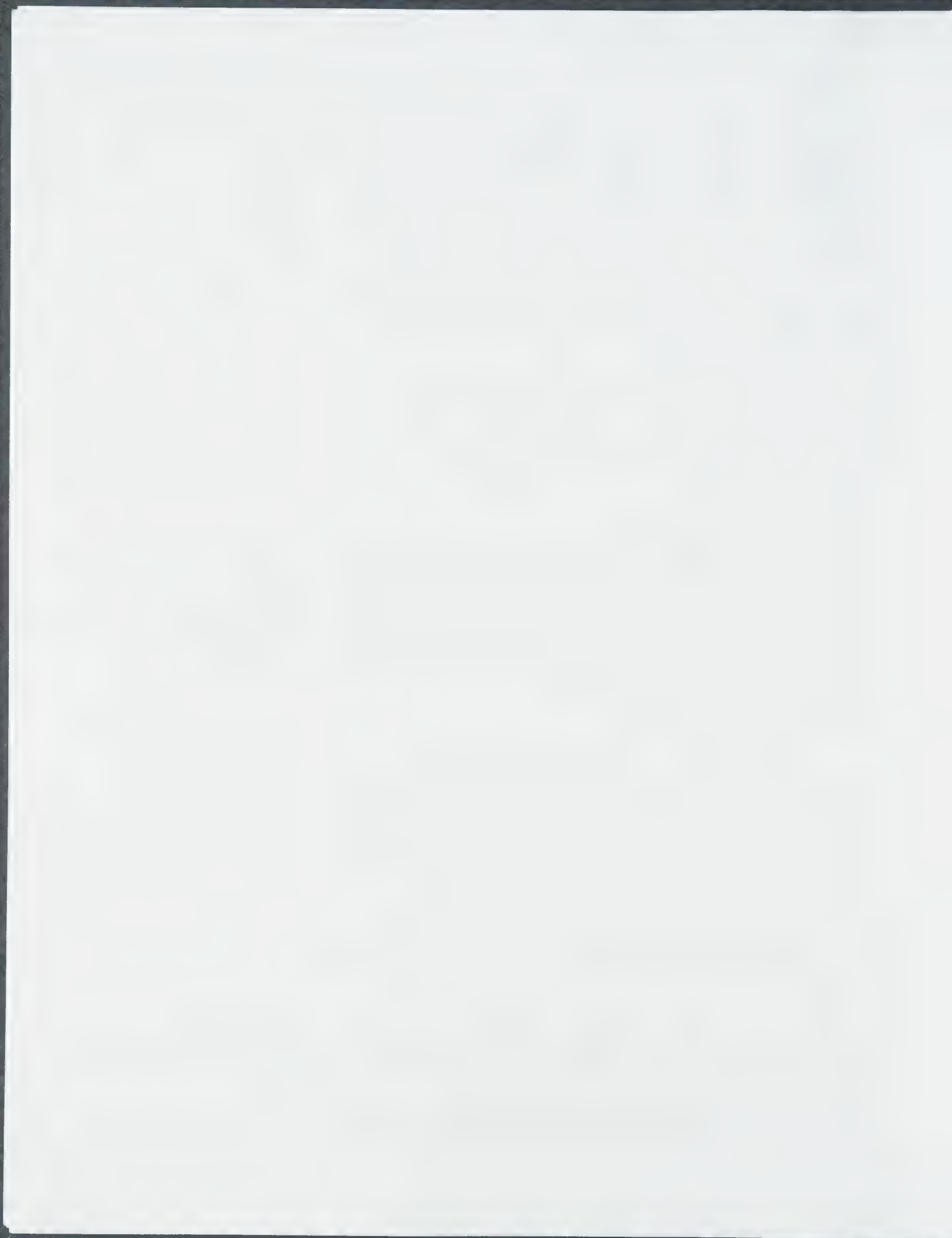
DIVIDEND DATA

No cash has been paid on the common shares. A three-for-two stock split was effected in May 1991.

FINANCES

Capital expenditures in 1992 totaled \$3.1 million, compared with \$2.1 million in 1991. The company anticipates that capital expenditures for 1993 will approximate those of 1992.

In July 1991, Osmonics sold \$10 million of long-term notes to replace \$10 million of interim bank financing that was used in the February



1990 repurchase of about 25% of the company's common shares.

In February 1990, the company repurchased from Hoechst Celanese Corp. 1,961,325 Osmonics common shares at \$6.22 each. The purchase was financed with \$2,204,000 in cash and \$10,000,000 of bank debt.

CAPITALIZATION

Long Term Debt: \$12,950,000 (6/93).

Common Stock: 6,081,442 shs. (\$0.01 par).

D.D. & R.C. Spatz own 20%, R.E. & M.L. Crump 13%, and State Farm Mutual Automobile Insurance Co. 15%.

Institutions hold about 35%.

Shareholders: About 1,275 of record (3/93).

*** NOTE: 1.Pro forma. 2.Six mos.

Office: 5951 Clearwater Dr., Minnetonka, MN 55343-8990.

Tel: (612) 933-2277.

Chrmn, Pres & CEO: D. D. Spatz.

VP & Treas: H. W. Dicke.

VP & CFO: L. L. Runzheimer.

Secy: Ruth C. Spatz.

Dir: R. E. Crump, V. C. Smith, M. L. Snow, D. D. Spatz, R. C. Spatz.

Transfer Agent & Registrar: Norwest Bank, MN, South St. Paul.

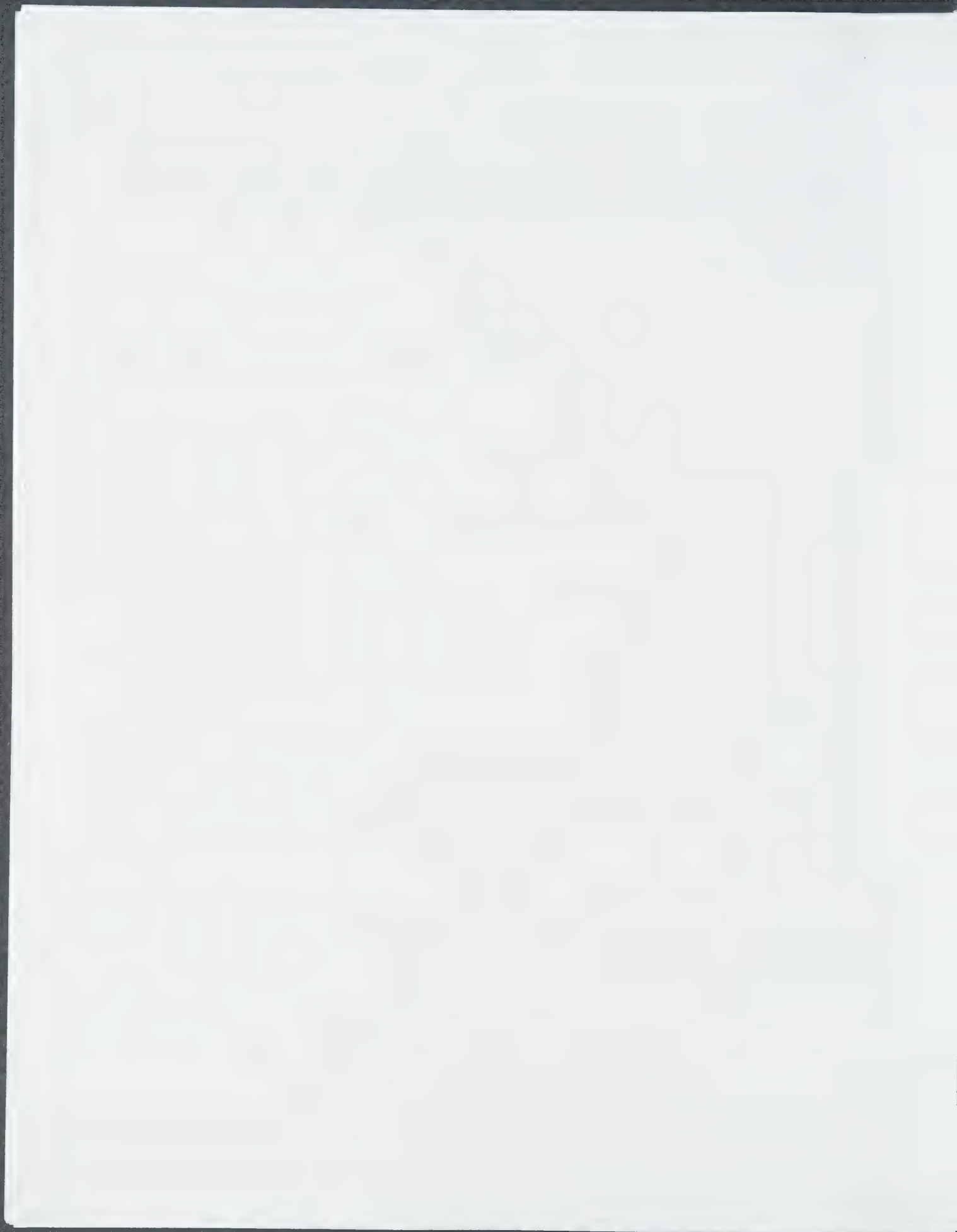
Incorporated in Delaware in 1969; re-incorporated in Minnesota in 1992.

Empl: 552.

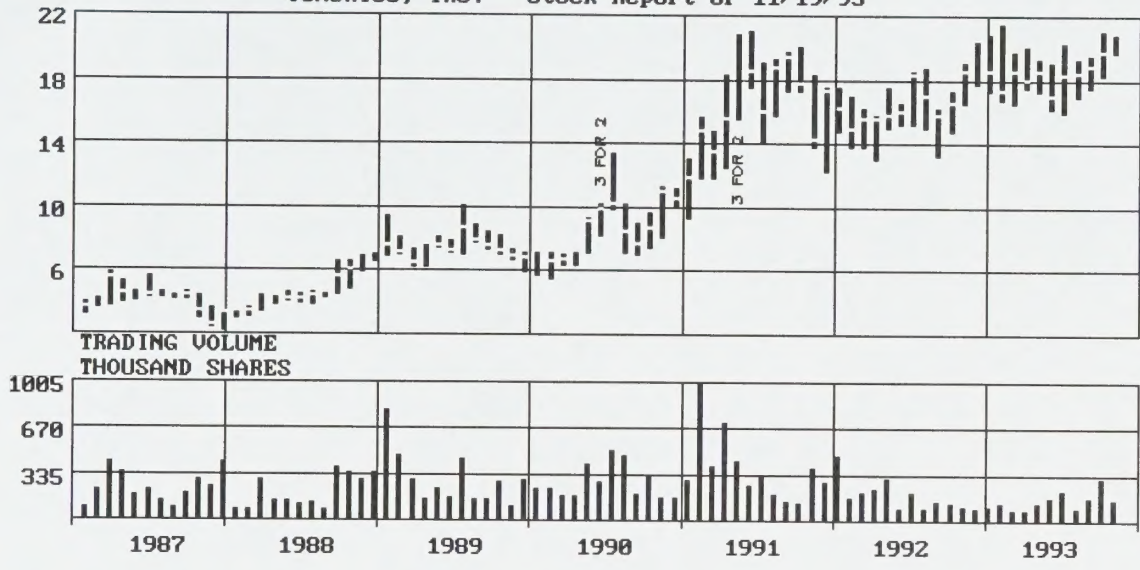
By: Stewart Scharf

Standard OTC Stock Reports
Vol. 59/No. 132/Sec. 35

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Osmonics, Inc. - Stock Report of 11/19/93







Department of Chemistry

120 West 18th Avenue
Columbus, OH 43210-1173
Phone 614-292-2251

August 9, 1988

Dr. Alfred Bader
The Aldrich Chemical Company, Inc.
P.O. Box 355
Milwaukee, WI 53201

Dear Dr. Bader:

It was a pleasure to meet you and your wife when you last visited Columbia University. At the time I was in the last stages of my postdoctoral studies with Professor Stork and was planning to start my appointment at The Ohio State University. You had asked me to stay in touch with you and to write to you after moving to Ohio State.

Well, I have now arrived at OSU and, as you had assured me, I am finding my colleagues to be both friendly and very helpful. I believe you had said that these traits are generally characteristic of mid-westerners. From what I have seen over the past week, that seems to be the case.

The lab space which I have been given is ample and completely refurbished. Moreover, I understand there is a bumper crop of graduate students this year, of which close to 30 are planning to major in organic chemistry. So, I feel very confident that I will be able to start a vigorous graduate program. One consequence of getting clean, new labs, of course, is that I have practically nothing in the way of equipment or reagents. I have started to equip my labs and am finding that my start-up money is disappearing very rapidly. I am finding out quickly just how expensive everyday reagent chemicals and glassware can be.

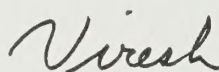
I do not know whether Aldrich grants any support to young faculty members, but if such funding is available, I do hope that you will consider me for it. At this stage I can certainly use any additional funds or research supplies. I would also welcome any excess glassware or used, functioning equipment such as magnetic stirrers, rotovaps, LC, etc.

Through my personal experience as a graduate student at the University of Pennsylvania under Professor Cava and as a Postdoctoral Fellow at Columbia, I have gained a tremendous amount of respect for Aldrich, for the quality and price of their goods as well as for their prompt

and courteous service. You can see from my CV (enclosed), my research interests are in the area of organic synthesis. Consequently, over the next several years I expect to order many thousands of dollars worth of reagents, chemicals and equipment, much of which, I am certain, will be from your company.

I look forward to a long and mutually fruitful relationship with you and Aldrich. I especially want to thank you for giving consideration to my request in this letter.

Yours sincerely,



Viresh H. Rawal
Assistant Professor of Chemistry

VHR:bb

Encl:CV

P.S. -- Kindly have my name entered onto the Aldrichimica Acta list.