

WATERS CORP /DE/  
Form 10-Q  
May 06, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended April 2, 2016**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number: 01-14010**

**Waters Corporation**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**13-3668640**  
**(I.R.S. Employer**  
**Identification No.)**

**34 Maple Street**  
**Milford, Massachusetts 01757**  
**(Address, including zip code, of principal executive offices)**

**(508) 478-2000**  
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of the registrant's common stock as of April 29, 2016: 80,941,488

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|   | <b>April 2,<br/>2016</b> | <b>December 31, 2015</b> |
|---|--------------------------|--------------------------|
| <b>ASSETS</b>   |                          |                          |
| Current assets:   |                          |                          |
| Cash and cash equivalents   | \$ 416,387               | \$ 487,665               |
| Investments   | 2,088,781                | 1,911,598                |
| Accounts receivable, less allowances for doubtful accounts and sales returns<br>of \$7,111 and \$7,496 at April 2, 2016 and December 31, 2015, respectively | 439,578                  | 468,315                  |
| Inventories   | 287,048                  | 263,415                  |
| Other current assets  | 78,825                   | 82,540                   |
| Total current assets  | 3,310,619                | 3,213,533                |
| Property, plant and equipment, net  | 336,798                  | 333,355                  |
| Intangible assets, net  | 223,364                  | 218,022                  |
| Goodwill  | 356,880                  | 356,864                  |
| Other assets  | 140,734                  | 146,903                  |
| Total assets  | \$ 4,368,395             | \$ 4,268,677             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                          |                          |
| Current liabilities:  |                          |                          |
| Notes payable and debt  | \$ 125,499               | \$ 175,309               |
| Accounts payable  | 73,290                   | 70,573                   |
| Accrued employee compensation   | 30,952                   | 54,653                   |
| Deferred revenue and customer advances  | 190,601                  | 141,505                  |
| Accrued income taxes  | 10,773                   | 14,894                   |
| Accrued warranty  | 12,832                   | 13,349                   |
| Other current liabilities   | 80,083                   | 93,793                   |
| Total current liabilities   | 524,030                  | 564,076                  |
| Long-term liabilities:  |                          |                          |
| Long-term debt  | 1,593,301                | 1,493,027                |
| Long-term portion of retirement benefits  | 70,973                   | 77,063                   |
| Long-term income tax liabilities  | 13,259                   | 14,884                   |
| Other long-term liabilities   | 65,146                   | 60,776                   |
| Total long-term liabilities   | 1,742,679                | 1,645,750                |

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|   |              |              |
|---|--------------|--------------|
| Total liabilities   | 2,266,709    | 2,209,826    |
| Commitments and contingencies (Notes 5, 6 and 10)   |              |              |
| Stockholders' equity:   |              |              |
| Preferred stock, par value \$0.01 per share, 5,000 shares authorized, none issued at April 2, 2016 and December 31, 2015  |              |              |
| Common stock, par value \$0.01 per share, 400,000 shares authorized, 157,915 and 157,677 shares issued, 80,919 and 81,472 shares outstanding at April 2, 2016 and December 31, 2015, respectively | 1,579        | 1,577        |
| Additional paid-in capital  | 1,515,833    | 1,490,342    |
| Retained earnings   | 4,957,618    | 4,863,566    |
| Treasury stock, at cost, 76,996 and 76,205 shares at April 2, 2016 and December 31, 2015, respectively  | (4,245,397)  | (4,149,908)  |
| Accumulated other comprehensive loss  | (127,947)    | (146,726)    |
| Total stockholders' equity  | 2,101,686    | 2,058,851    |
| Total liabilities and stockholders' equity  | \$ 4,368,395 | \$ 4,268,677 |

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

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**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**  
**(unaudited)**

|  | <b>Three Months Ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| Product sales  | \$ 307,857                | \$ 302,873           |
| Service sales  | 167,389                   | 157,531              |
| <b>Total net sales</b>   | <b>475,246</b>            | <b>460,404</b>       |
| Cost of product sales  | 129,258                   | 121,953              |
| Cost of service sales  | 71,893                    | 67,293               |
| <b>Total cost of sales</b>                                       | <b>201,151</b>            | <b>189,246</b>       |
| <b>Gross profit</b>  | <b>274,095</b>            | <b>271,158</b>       |
| Selling and administrative expenses                              | 129,351                   | 119,751              |
| Research and development expenses                                | 29,438                    | 28,951               |
| Purchased intangibles amortization                               | 2,644                     | 2,474                |
| <b>Operating income</b>  | <b>112,662</b>            | <b>119,982</b>       |
| Interest expense   | (10,119)                  | (8,975)              |
| Interest income  | 4,087                     | 2,340                |
| <b>Income from operations before income taxes</b>                | <b>106,630</b>            | <b>113,347</b>       |
| Provision for income taxes                                       | 12,578                    | 17,286               |
| <b>Net income</b>  | <b>\$ 94,052</b>          | <b>\$ 96,061</b>     |
| <b>Net income per basic common share</b>                         | <b>\$ 1.16</b>            | <b>\$ 1.16</b>       |
| Weighted-average number of basic common shares                   | 81,275                    | 83,025               |
| <b>Net income per diluted common share</b>                       | <b>\$ 1.15</b>            | <b>\$ 1.15</b>       |
| Weighted-average number of diluted common shares and equivalents | 81,974                    | 83,752               |

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

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**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(IN THOUSANDS)**

**(unaudited)**

|   | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| Net income  | \$ 94,052                 | \$ 96,061            |
| Other comprehensive income (loss):                          |                           |                      |
| Foreign currency translation                                | 16,051                    | (64,348)             |
| Unrealized gains on investments before income taxes         | 3,289                     | 2,767                |
| Income tax expense  | (93)                      | (116)                |
| Unrealized gains on investments, net of tax                 | 3,196                     | 2,651                |
| Retirement liability adjustment before reclassifications    | (1,000)                   | 2,136                |
| Amounts reclassified to selling and administrative expenses | 810                       | 921                  |
| Retirement liability adjustment before income taxes         | (190)                     | 3,057                |
| Income tax expense  | (278)                     | (1,031)              |
| Retirement liability adjustment, net of tax                 | (468)                     | 2,026                |
| Other comprehensive income (loss)                           | 18,779                    | (59,671)             |
| Comprehensive income  | \$ 112,831                | \$ 36,390            |

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

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**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**  
**(unaudited)**

|  | <b>Three Months Ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| <b>Cash flows from operating activities:</b>   |                           |                      |
| Net income   | \$ 94,052                 | \$ 96,061            |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                           |                      |
| Stock-based compensation   | 15,841                    | 8,455                |
| Deferred income taxes  | 3,740                     | 2,828                |
| Depreciation   | 12,356                    | 11,445               |
| Amortization of intangibles  | 11,075                    | 11,104               |
| <b>Change in operating assets and liabilities:</b>                                       |                           |                      |
| Decrease in accounts receivable  | 38,254                    | 24,961               |
| Increase in inventories  | (20,488)                  | (20,001)             |
| Decrease (increase) in other current assets  | 1,037                     | (1,776)              |
| Increase in other assets   | (3,421)                   | (4,891)              |
| Decrease in accounts payable and other current liabilities                               | (43,632)                  | (25,518)             |
| Increase in deferred revenue and customer advances                                       | 45,586                    | 42,555               |
| Increase in other liabilities  | 5,486                     | 9,367                |
| <b>Net cash provided by operating activities</b>   | <b>159,886</b>            | <b>154,590</b>       |
| <b>Cash flows from investing activities:</b>   |                           |                      |
| Additions to property, plant, equipment and software capitalization                      | (24,652)                  | (21,410)             |
| Purchases of investments   | (685,568)                 | (794,422)            |
| Maturities and sales of investments  | 512,397                   | 759,386              |
| <b>Net cash used in investing activities</b>   | <b>(197,823)</b>          | <b>(56,446)</b>      |
| <b>Cash flows from financing activities:</b>   |                           |                      |
| Proceeds from debt issuances   | 110,177                   | 120,073              |
| Payments on debt   | (60,000)                  | (100,000)            |
| Proceeds from stock plans  | 8,191                     | 11,269               |
| Purchases of treasury shares   | (95,489)                  | (91,025)             |
| Excess tax benefit related to stock option plans   | 1,619                     | 2,757                |
| Payments for derivative contracts  | (1,895)                   | (3,348)              |
| <b>Net cash used in financing activities</b>   | <b>(37,397)</b>           | <b>(60,274)</b>      |
| Effect of exchange rate changes on cash and cash equivalents                             | 4,056                     | (19,249)             |
| <b>(Decrease) increase in cash and cash equivalents</b>                                  | <b>(71,278)</b>           | <b>18,621</b>        |
| Cash and cash equivalents at beginning of period   | 487,665                   | 422,177              |



|  |            |            |
|--|------------|------------|
| Cash and cash equivalents at end of period | \$ 416,387 | \$ 440,798 |
|--|------------|------------|

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

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**WATERS CORPORATION AND SUBSIDIARIES**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1 Basis of Presentation and Summary of Significant Accounting Policies**

Waters Corporation ( Waters® or the Company ) is an analytical instrument manufacturer that primarily designs, manufactures, sells and services high performance liquid chromatography ( HPLC ), ultra performance liquid chromatography ( UPLC® and together with HPLC, referred to as LC ) and mass spectrometry ( MS ) technology systems and support products, including chromatography columns, other consumable products and comprehensive post-warranty service plans. These systems are complementary products that are frequently employed together ( LC-MS ) and sold as integrated instrument systems using a common software platform. LC is a standard technique and is utilized in a broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials, and to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as proteomics ), nutritional safety analysis and environmental testing. LC-MS instruments combine a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. In addition, the Company designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments through its TA® product line. These instruments are used in predicting the suitability and stability of fine chemicals, pharmaceuticals, water, polymers, metals and viscous liquids for various industrial, consumer goods and healthcare products, as well as for pharmaceutical research. The Company is also a developer and supplier of software-based products that interface with the Company's instruments, as well as other suppliers' instruments, and are typically purchased by customers as part of the instrument system.

The Company's interim fiscal quarter typically ends on the thirteenth Saturday of each quarter. Since the Company's fiscal year end is December 31, the first and fourth fiscal quarters may have more or less than thirteen complete weeks. The Company's first fiscal quarters for 2016 and 2015 ended on April 2, 2016 and April 4, 2015, respectively.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to the Quarterly Report on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles ( GAAP ) in the United States of America. The consolidated financial statements include the accounts of the Company and its subsidiaries, which are wholly owned. All material inter-company balances and transactions have been eliminated.

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities at the dates of the financial statements. Actual amounts may differ from these estimates under different assumptions or conditions.

It is management's opinion that the accompanying interim consolidated financial statements reflect all adjustments (which are normal and recurring) that are necessary for a fair statement of the results for the interim periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission on February 26, 2016.

*Translation of Foreign Currencies*

For most of the Company's foreign operations, assets and liabilities are translated into U.S. dollars at exchange rates prevailing on the balance sheet date, while revenues and expenses are translated at average exchange rates prevailing during the period. The functional currency of each of the Company's foreign operating subsidiaries is the local currency of that particular country, except for the Company's subsidiaries organized in Hong Kong, Singapore and the Cayman Islands, where the underlying transactional cash flows are denominated in currencies other than the respective local currency of domicile. The functional currency of the Hong Kong, Singapore and Cayman Islands subsidiaries is the U.S. dollar, based on the respective entity's cash flows.

*Cash, Cash Equivalents and Investments*

Cash equivalents represent highly liquid investments, with original maturities of 90 days or less, while investments with longer maturities are classified as investments. The Company maintains cash balances in various operating accounts in excess of federally insured limits, and in foreign subsidiary accounts in currencies other than U.S. dollars.

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

As of April 2, 2016 and December 31, 2015, \$2,478 million out of \$2,505 million and \$2,346 million out of \$2,399 million, respectively, of the Company's total cash, cash equivalents and investments were held by foreign subsidiaries and may be subject to material tax effects on distribution to U.S. legal entities. In addition, \$241 million out of \$2,505 million and \$248 million out of \$2,399 million of cash, cash equivalents and investments were held in currencies other than U.S. dollars at April 2, 2016 and December 31, 2015, respectively.

*Fair Value Measurements*

In accordance with the accounting standards for fair value measurements and disclosures, certain of the Company's assets and liabilities are measured at fair value on a recurring basis as of April 2, 2016 and December 31, 2015. Fair values determined by Level 1 inputs utilize observable data, such as quoted prices in active markets. Fair values determined by Level 2 inputs utilize data points other than quoted prices in active markets that are observable either directly or indirectly. Fair values determined by Level 3 inputs utilize unobservable data points for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at April 2, 2016 (in thousands):

|                                       | <b>Total at<br/>April 2,<br/>2016</b> | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---------------------------------------|---------------------------------------|---|--|--|
| <b>Assets:</b>                        |                                       |   |  |  |
| U.S. Treasury securities              | \$ 608,537                            | \$  | \$ 608,537   | \$   |
| Foreign government securities         | 27,011                                |   | 27,011   |  |
| Corporate debt securities             | 1,433,296                             |   | 1,433,296  |  |
| Time deposits                         | 106,408                               |   | 106,408  |  |
| Equity securities                     | 147                                   |   | 147  |  |
| Other cash equivalents                | 27,000                                |   | 27,000   |  |
| Waters 401(k) Restoration Plan assets | 30,014                                |   | 30,014   |  |
| Foreign currency exchange contracts   | 814                                   |   | 814  |  |
| <b>Total</b>                          | <b>\$ 2,233,227</b>                   | <b>\$</b>   | <b>\$ 2,233,227</b>  | <b>\$</b>  |
| <b>Liabilities:</b>                   |                                       |   |  |  |
| Contingent consideration              | \$ 4,412                              | \$  | \$   | \$ 4,412   |
| Foreign currency exchange contracts   | 628                                   |   | 628  |  |
| <b>Total</b>                          | <b>\$ 5,040</b>                       | <b>\$</b>   | <b>\$ 628</b>  | <b>\$ 4,412</b>  |



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The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2015 (in thousands):

|                                       | <b>Total at<br/>December 31,<br/>2015</b> | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---------------------------------------|---|---|--|--|
| <b>Assets:</b>                        |   |   |  |  |
| U.S. Treasury securities              | \$ 627,156                                | \$  | \$ 627,156   | \$   |
| Foreign government securities         | 15,199                                    |   | 15,199   |  |
| Corporate debt securities             | 1,324,318                                 |   | 1,324,318  |  |
| Time deposits                         | 74,947                                    |   | 74,947   |  |
| Equity securities                     | 147                                       |   | 147  |  |
| Other cash equivalents                | 27,000                                    |   | 27,000   |  |
| Waters 401(k) Restoration Plan assets | 35,823                                    |   | 35,823   |  |
| Foreign currency exchange contracts   | 616                                       |   | 616  |  |
| <b>Total</b>                          | <b>\$ 2,105,206</b>                       | <b>\$</b>   | <b>\$ 2,105,206</b>  | <b>\$</b>  |
| <b>Liabilities:</b>                   |   |   |  |  |
| Contingent consideration              | \$ 4,215                                  | \$  | \$   | \$ 4,215   |
| Foreign currency exchange contracts   | 402                                       |   | 402  |  |
| <b>Total</b>                          | <b>\$ 4,617</b>                           | <b>\$</b>   | <b>\$ 402</b>  | <b>\$ 4,215</b>  |

The fair values of the Company's cash equivalents, investments, 401(k) restoration plan assets and foreign currency exchange contracts are determined through market and observable sources and have been classified as Level 2. These assets and liabilities have been initially valued at the transaction price and subsequently valued, typically utilizing third-party pricing services. The pricing services use many inputs to determine value, including reportable trades, benchmark yields, credit spreads, broker/dealer quotes, current spot rates and other industry and economic events. The Company validates the prices provided by third-party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing these validation procedures, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of April 2, 2016 and December 31, 2015.

*Fair Value of Contingent Consideration*

The fair value of the Company's liability for contingent consideration related to the July 2014 acquisition of Medimass Research, Development and Service Kft. is determined using a probability-weighted discounted cash flow model,

which uses significant unobservable inputs, and has been classified as Level 3. Subsequent changes in the fair value of the contingent consideration liability are recorded in the results of operations. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including the estimated future results and a discount rate that reflects both the likelihood of achieving the estimated future results and the Company's creditworthiness. A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Although there is no contractual limit, the fair value of future contingent consideration payments was estimated to be \$4 million at both April 2, 2016 and December 31, 2015, based on the Company's best estimate, as the earnout is based on future sales of certain products through 2034. There have been no changes in significant assumptions since December 31, 2015 and the change in fair value since then is primarily due to change in time value of money.

*Fair Value of Other Financial Instruments*

The Company's cash, accounts receivable, accounts payable and variable interest rate debt are recorded at cost, which approximates fair value. The carrying value of the Company's fixed interest rate debt was \$400 million and \$450 million at April 2, 2016 and December 31, 2015, respectively. The fair value of the Company's fixed interest rate debt was estimated using discounted cash flow models, based on estimated current rates offered for similar debt under current market conditions for the Company. The fair value of the Company's fixed interest rate debt was estimated to be \$410 million and \$454 million at April 2, 2016 and December 31, 2015, respectively, using Level 2 inputs.

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)***Derivative Transactions*

The Company is a global company that operates in over 35 countries and, as a result, the Company's net sales, cost of sales, operating expenses and balance sheet amounts are significantly impacted by fluctuations in foreign currency exchange rates. The Company is exposed to currency price risk on foreign currency exchange rate fluctuations when it translates its non-U.S. dollar foreign subsidiaries' financial statements into U.S. dollars, and when any of the Company's subsidiaries purchase or sell products or services in a currency other than its own currency.

The Company's principal strategy in managing exposure to changes in foreign currency exchange rates is to naturally hedge the foreign-currency-denominated liabilities on the Company's balance sheet against corresponding assets of the same currency, such that any changes in liabilities due to fluctuations in foreign exchange rates are offset by corresponding changes in assets.

The Company does not specifically enter into any derivatives that hedge foreign-currency-denominated assets, liabilities or commitments on its balance sheet, other than a portion of certain third-party accounts receivable and accounts payable, and the Company's net worldwide intercompany receivables and payables, which are eliminated in consolidation. The Company periodically aggregates its net worldwide balances by currency and then enters into foreign currency exchange contracts that mature within 90 days to hedge a portion of the remaining balance to minimize some of the Company's currency price risk exposure. The foreign currency exchange contracts are not designated for hedge accounting treatment.

Principal hedged currencies include the Euro, Japanese yen, British pound and Brazilian real. At April 2, 2016 and December 31, 2015, the Company held foreign exchange contracts with notional amounts totaling \$121 million and \$116 million, respectively.

The Company's foreign currency exchange contracts included in the consolidated balance sheets are classified as follows (in thousands):

|                           | <b>April 2, 2016</b> | <b>December 31, 2015</b> |
|---------------------------|----------------------|--------------------------|
| Other current assets      | \$ 814               | \$ 616                   |
| Other current liabilities | \$ 628               | \$ 402                   |

The following is a summary of the activity in the statements of operations related to the foreign exchange contracts (in thousands):

|   | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| Realized losses on closed contracts         | \$ (1,895)                | \$ (3,348)           |
| Unrealized (losses) gains on open contracts | (28)                      | 342                  |
| Cumulative net pre-tax losses               | \$ (1,923)                | \$ (3,006)           |



*Stockholders Equity*

In May 2014, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a three-year period. The Company repurchased 0.7 million shares of the Company's outstanding common stock during both the three months ended April 2, 2016 and April 4, 2015 at a cost of \$89 million and \$85 million, respectively, under the May 2014 authorization and other previously announced programs. The Company has a total of \$352 million authorized for future repurchases under the May 2014 plan. In addition, the Company repurchased \$6 million of common stock related to the vesting of restricted stock units during both the three months ended April 2, 2016 and April 4, 2015. The Company believes that it has the financial flexibility to fund these share repurchases given current cash levels and debt borrowing capacity, as well as to invest in research, technology and business acquisitions to further grow the Company's sales and profits.

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)***Product Warranty Costs*

The Company accrues estimated product warranty costs at the time of sale, which are included in cost of sales in the consolidated statements of operations. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. The amount of the accrued warranty liability is based on historical information, such as past experience, product failure rates, number of units repaired and estimated costs of material and labor. The liability is reviewed for reasonableness at least quarterly.

The following is a summary of the activity of the Company's accrued warranty liability for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|                                    | <b>Balance at<br/>Beginning<br/>of Period</b> | <b>Accruals for<br/>Warranties</b> | <b>Settlements<br/>Made</b> | <b>Balance at<br/>End of<br/>Period</b> |
|------------------------------------|---|------------------------------------|-----------------------------|---|
| <b>Accrued warranty liability:</b> |   |                                    |                             |   |
| April 2, 2016                      | \$ 13,349                                     | \$ 1,681                           | \$ (2,198)                  | \$ 12,832                               |
| April 4, 2015                      | \$ 13,266                                     | \$ 1,762                           | \$ (2,157)                  | \$ 12,871                               |

**2 Marketable Securities**

The Company's marketable securities within cash equivalents and investments included in the consolidated balance sheets are detailed as follows (in thousands):

|                               | <b>Amortized<br/>Cost</b> | <b>April 2, 2016<br/>Unrealized<br/>Gain</b> | <b>Unrealized<br/>Loss</b> | <b>Fair<br/>Value</b> |
|-------------------------------|---------------------------|--|----------------------------|-----------------------|
| U.S. Treasury securities      | \$ 607,957                | \$ 621                                       | \$ (41)                    | \$ 608,537            |
| Foreign government securities | 27,008                    | 6  | (3)                        | 27,011                |
| Corporate debt securities     | 1,432,889                 | 1,055  | (648)                      | 1,433,296             |
| Time deposits                 | 106,408                   |  |                            | 106,408               |
| Equity securities             | 77                        | 70   |                            | 147                   |
| <b>Total</b>                  | <b>\$ 2,174,339</b>       | <b>\$ 1,752</b>                              | <b>\$ (692)</b>            | <b>\$ 2,175,399</b>   |
| <b>Amounts included in:</b>   |                           |  |                            |                       |
| Cash equivalents              | \$ 86,618                 | \$   | \$                         | \$ 86,618             |
| Investments                   | 2,087,721                 | 1,752  | (692)                      | 2,088,781             |
| <b>Total</b>                  | <b>\$ 2,174,339</b>       | <b>\$ 1,752</b>                              | <b>\$ (692)</b>            | <b>\$ 2,175,399</b>   |

|                               | <b>December 31, 2015</b>  |                            |                            |                       |
|-------------------------------|---------------------------|----------------------------|----------------------------|-----------------------|
|                               | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gain</b> | <b>Unrealized<br/>Loss</b> | <b>Fair<br/>Value</b> |
| U.S. Treasury securities      | \$ 628,358                | \$ 16                      | \$ (1,218)                 | \$ 627,156            |
| Foreign government securities | 15,216                    |                            | (17)                       | 15,199                |
| Corporate debt securities     | 1,325,398                 | 159                        | (1,239)                    | 1,324,318             |
| Time deposits                 | 74,947                    |                            |                            | 74,947                |
| Equity securities             | 77                        | 70                         |                            | 147                   |
| <b>Total</b>                  | <b>\$ 2,043,996</b>       | <b>\$ 245</b>              | <b>\$ (2,474)</b>          | <b>\$ 2,041,767</b>   |
| <b>Amounts included in:</b>   |                           |                            |                            |                       |
| Cash equivalents              | \$ 130,169                | \$                         | \$                         | \$ 130,169            |
| Investments                   | 1,913,827                 | 245                        | (2,474)                    | 1,911,598             |
| <b>Total</b>                  | <b>\$ 2,043,996</b>       | <b>\$ 245</b>              | <b>\$ (2,474)</b>          | <b>\$ 2,041,767</b>   |

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

The estimated fair value of marketable debt securities by maturity date is as follows (in thousands):

|  | <b>April 2,<br/>2016</b> | <b>December 31, 2015</b> |
|--|--------------------------|--------------------------|
| Due in one year or less                | \$ 1,214,006             | \$ 1,137,825             |
| Due after one year through three years | 854,838                  | 828,848                  |
| <b>Total</b>                           | <b>\$ 2,068,844</b>      | <b>\$ 1,966,673</b>      |

**3 Inventories**

Inventories are classified as follows (in thousands):

|                          | <b>April 2, 2016</b> | <b>December 31, 2015</b> |
|--------------------------|----------------------|--------------------------|
| Raw materials            | \$ 92,701            | \$ 88,625                |
| Work in progress         | 21,811               | 20,901                   |
| Finished goods           | 172,536              | 153,889                  |
| <b>Total inventories</b> | <b>\$ 287,048</b>    | <b>\$ 263,415</b>        |

**4 Intangibles**

The Company's intangible assets included in the consolidated balance sheets are detailed as follows (in thousands):

|                               | <b>April 2, 2016</b>                 |                                     |  | <b>December 31, 2015</b>             |                                     |  |
|-------------------------------|--------------------------------------|-------------------------------------|--|--------------------------------------|-------------------------------------|--|
|                               | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Weighted-<br/>Average<br/>Amortization<br/>Period</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Weighted-<br/>Average<br/>Amortization<br/>Period</b> |
| Capitalized software          | \$ 359,320                           | \$ 219,880                          | 6 years  | \$ 335,949                           | \$ 204,267                          | 7 years  |
| Purchased intangibles         | 165,464                              | 123,351                             | 11 years   | 163,500                              | 119,505                             | 11 years   |
| Trademarks and IPR&D          | 14,220                               |                                     |  | 14,364                               |                                     |  |
| Licenses                      | 5,278                                | 4,070                               | 6 years  | 5,396                                | 4,046                               | 6 years  |
| Patents and other intangibles | 60,153                               | 33,770                              | 8 years  | 58,519                               | 31,888                              | 8 years  |
| <b>Total</b>                  | <b>\$ 604,435</b>                    | <b>\$ 381,071</b>                   | <b>7 years</b>   | <b>\$ 577,728</b>                    | <b>\$ 359,706</b>                   | <b>8 years</b>   |

During the three months ended April 2, 2016, the effect of foreign currency translation increased the gross carrying value of intangible assets and accumulated amortization for intangible assets by \$16 million and \$10 million, respectively. Amortization expense for intangible assets was \$11 million for both the three months ended April 2, 2016 and April 4, 2015. Amortization expense for intangible assets is estimated to be approximately \$44 million per year for each of the next five years.

## **5 Debt**

In June 2013, the Company entered into a credit agreement that provides for a \$1.1 billion revolving facility and a \$300 million term loan facility. In April 2015, Waters entered into an amendment to this agreement (the Amended Credit Agreement ). The Amended Credit Agreement provides for an increase of the revolving commitments from \$1.1 billion to \$1.3 billion and extends the maturity of the original credit agreement from June 25, 2018 until April 23, 2020. The Company plans to use future proceeds from the revolving facility for general corporate purposes.

The interest rates applicable to the Amended Credit Agreement are, at the Company's option, equal to either the alternate base rate calculated daily (which is a rate per annum equal to the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate in effect on such day plus 1/2% per annum, or (c) the adjusted LIBO rate on such day (or if such day is not a business day, the immediately preceding business day) for a deposit in U.S. dollars with a maturity of one month plus 1% per annum) or the applicable 1, 2, 3 or 6 month adjusted LIBO rate, in each case, plus an interest rate margin based upon the Company's leverage ratio, which can range between 0 to 12.5

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

basis points for alternate base rate loans and between 80 basis points and 117.5 basis points for adjusted LIBO rate loans. The facility fee on the Amended Credit Agreement ranges between 7.5 basis points and 20 basis points. The Amended Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1 as of the end of any fiscal quarter for any period of four consecutive fiscal quarters and a leverage ratio test of not more than 3.50:1 as of the end of any fiscal quarter. In addition, the Amended Credit Agreement includes negative covenants, affirmative covenants, representations and warranties and events of default that are customary for investment grade credit facilities.

At April 2, 2016, \$125 million of the outstanding portion of the revolving facility was classified as short-term liabilities in the consolidated balance sheet due to the fact that the Company expects to repay this portion of the borrowing under the revolving line of credit within the next twelve months. The remaining \$845 million of the outstanding portion of the revolving facility was classified as long-term liabilities in the consolidated balance sheet, as this portion is not expected to be repaid within the next twelve months.

As of April 2, 2016 and December 31, 2015, the Company had a total of \$450 million and \$500 million of outstanding senior unsecured notes, respectively. Interest on the fixed rate senior unsecured notes is payable semi-annually each year. Interest on the floating rate senior unsecured notes is payable quarterly. The Company may prepay all or some of the senior unsecured notes at any time in an amount not less than 10% of the aggregate principal amount outstanding, plus the applicable make-whole amount or prepayment premium for Series H senior unsecured notes. In the event of a change in control of the Company (as defined in the note purchase agreement), the Company may be required to prepay the senior unsecured notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. These senior unsecured notes require that the Company comply with an interest coverage ratio test of not less than 3.50:1 for any period of four consecutive fiscal quarters and a leverage ratio test of not more than 3.50:1 as of the end of any fiscal quarter. In addition, these senior unsecured notes include customary negative covenants, affirmative covenants, representations and warranties and events of default.

The Company had the following outstanding debt at April 2, 2016 and December 31, 2015 (in thousands):

|   | <b>April 2,<br/>2016</b> | <b>December 31, 2015</b> |
|---|--------------------------|--------------------------|
| Foreign subsidiary lines of credit                              | \$ 499                   | \$ 322                   |
| Senior unsecured notes - Series C - 2.50%, due<br>March 2016    |                          | 50,000                   |
| Credit agreements   | 125,000                  | 125,000                  |
| Unamortized debt issuance costs                                 |                          | (13)                     |
| <b>Total notes payable and debt</b>                             | <b>125,499</b>           | <b>175,309</b>           |
| Senior unsecured notes - Series B - 5.00%, due<br>February 2020 | 100,000                  | 100,000                  |
| Senior unsecured notes - Series D - 3.22%, due<br>March 2018    | 100,000                  | 100,000                  |

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|   |              |              |
|---|--------------|--------------|
| Senior unsecured notes - Series E - 3.97%, due March 2021         | 50,000       | 50,000       |
| Senior unsecured notes - Series F - 3.40%, due June 2021          | 100,000      | 100,000      |
| Senior unsecured notes - Series G - 3.92%, due June 2024          | 50,000       | 50,000       |
| Senior unsecured notes - Series H - floating rate*, due June 2024 | 50,000       | 50,000       |
| Credit agreements   | 1,145,000    | 1,045,000    |
| Unamortized debt issuance costs                                   | (1,699)      | (1,973)      |
| Total long-term debt  | 1,593,301    | 1,493,027    |
| Total debt  | \$ 1,718,800 | \$ 1,668,336 |

\* Series H senior unsecured notes bear interest at 3 month LIBOR for that floating rate interest period plus 1.25%. As of April 2, 2016 and December 31, 2015, the Company had a total amount available to borrow under existing credit agreements of \$328 million and \$428 million, respectively, after outstanding letters of credit. The weighted-average interest rates applicable to the senior unsecured notes and credit agreement borrowings collectively were 2.16% and 2.11% at April 2, 2016 and December 31, 2015, respectively. As of April 2, 2016, the Company was in compliance with all debt covenants.

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

The Company and its foreign subsidiaries also had available short-term lines of credit totaling \$100 million and \$97 million at April 2, 2016 and December 31, 2015, respectively, for the purpose of short-term borrowing and issuance of commercial guarantees. The weighted-average interest rates applicable to these short-term borrowings were 1.48% and 1.24% at April 2, 2016 and December 31, 2015, respectively.

**6 Income Taxes**

The four principal jurisdictions in which the Company manufactures are the U.S., Ireland, the United Kingdom and Singapore, where the marginal effective tax rates were approximately 37.5%, 12.5%, 20% and 0%, respectively, as of April 2, 2016. The Company has a contractual tax rate in Singapore of 0% through March 2021, based upon the achievement of certain contractual milestones, which the Company expects to continue to meet. The current statutory tax rate in Singapore is 17%. For the first quarter of 2016, the effect of applying the contractual tax rate in Singapore, as compared with applying the statutory tax rate, increased net income by \$4 million and increased net income per diluted share by \$0.05.

The Company's effective tax rate was 11.8% and 15.3% for the three months ended April 2, 2016 and April 4, 2015, respectively. The decrease in the effective tax rate in 2016 as compared to 2015 can be attributed to a quarter-specific tax benefit associated with modifications to certain stock compensation awards. In addition, the income tax provision for 2015 included a quarter-specific tax provision related to a pending tax audit settlement. The remaining differences between the effective tax rate in 2016 and 2015 were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

The Company accounts for its uncertain tax return reporting positions in accordance with the accounting standards for income taxes, which require financial statement reporting of the expected future tax consequences of uncertain tax reporting positions on the presumption that all concerned tax authorities possess full knowledge of those tax reporting positions, as well as all of the pertinent facts and circumstances, but prohibit any discounting of unrecognized tax benefits associated with those reporting positions for the time value of money.

The following is a summary of the activity of the Company's unrecognized tax benefits for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|  | <b>April 2, 2016</b> | <b>April 4, 2015</b> |
|--|----------------------|----------------------|
| Balance at the beginning of the period | \$ 14,450            | \$ 19,596            |
| Net changes in uncertain tax benefits  | (790)                | 933                  |
| Balance at the end of the period       | \$ 13,660            | \$ 20,529            |

With limited exceptions, the Company is no longer subject to tax audit examinations in significant jurisdictions for the years ended on or before December 31, 2012. However, carryforward tax attributes that were generated in years beginning on or before January 1, 2013 may still be adjusted upon examination by tax authorities if the attributes are utilized. The Company continuously monitors the lapsing of statutes of limitations on potential tax assessments for related changes in the measurement of unrecognized tax benefits, related net interest and penalties, and deferred tax



assets and liabilities. As of April 2, 2016, the Company expects to record additional reductions in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately \$6 million within the next twelve months due to potential tax audit settlements and the lapsing of statutes of limitations on potential tax assessments. The Company does not expect to record any other material reductions in the measurement of its unrecognized tax benefits within the next twelve months.

## **7 Stock-Based Compensation**

The Company maintains various shareholder-approved, stock-based compensation plans which allow for the issuance of incentive or non-qualified stock options, stock appreciation rights, restricted stock or other types of awards (e.g. restricted stock units).

The Company accounts for stock-based compensation costs in accordance with the accounting standards for stock-based compensation, which require that all share-based payments to employees be recognized in the statements of operations based on their grant date fair values. The Company recognizes the expense using the straight-line attribution method. The stock-based compensation expense recognized in the consolidated statements of operations

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

is based on awards that ultimately are expected to vest; therefore, the amount of expense has been reduced for estimated forfeitures. The stock-based compensation accounting standards require forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. In addition, if the Company employs different assumptions in the application of these standards, the compensation expense that the Company records in the future periods may differ significantly from what the Company has recorded in the current period.

The consolidated statements of operations for the three months ended April 2, 2016 and April 4, 2015 include the following stock-based compensation expense related to stock option awards, restricted stock, restricted stock unit awards and the employee stock purchase plan (in thousands):

|                                     | <b>Three Months Ended</b> |                      |
|-------------------------------------|---------------------------|----------------------|
|                                     | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| Cost of sales                       | \$ 671                    | \$ 674               |
| Selling and administrative expenses | 13,969                    | 6,634                |
| Research and development expenses   | 1,201                     | 1,147                |
| <br>                                |                           |                      |
| Total stock-based compensation      | \$ 15,841                 | \$ 8,455             |

During the three months ended April 2, 2016, the Company recognized \$7 million of stock compensation expense related to the modification of certain stock awards upon the retirement of senior executives.

*Stock Options*

In determining the fair value of the stock options, the Company makes a variety of assumptions and estimates, including volatility measures, expected yields and expected stock option lives. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model. The Company uses implied volatility on its publicly-traded options as the basis for its estimate of expected volatility. The Company believes that implied volatility is the most appropriate indicator of expected volatility because it is generally reflective of historical volatility and expectations of how future volatility will differ from historical volatility. The expected life assumption for grants is based on historical experience for the population of non-qualified stock option exercises. The risk-free interest rate is the yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximating the expected term used as the input to the Black-Scholes model. The relevant data used to determine the value of the stock options granted during the three months ended April 2, 2016 and April 4, 2015 are as follows:

**Options Issued and Significant Assumptions Used to Estimate****Option Fair Values****April 2, 2016** **April 4, 2015**

|                             |       |       |
|-----------------------------|-------|-------|
| Options issued in thousands | 86    | 32    |
| Risk-free interest rate     | 1.5%  | 1.6%  |
| Expected life in years      | 5     | 4     |
| Expected volatility         | 0.286 | 0.267 |
| Expected dividends          |       |       |

**Weighted-Average Exercise Price and Fair Value of Options on**

| <b>the Date of Grant</b> | <b>April 2, 2016</b> | <b>April 4, 2015</b> |
|--------------------------|----------------------|----------------------|
| Exercise price           | \$ 122.65            | \$ 113.88            |
| Fair value               | \$ 34.63             | \$ 26.94             |

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

The following table summarizes stock option activity for the plans for the three months ended April 2, 2016 (in thousands, except per share data):

|                                  | <b>Number of Shares</b> | <b>Price per Share</b> | <b>Weighted-Average<br/>Exercise<br/>Price</b> |
|----------------------------------|-------------------------|------------------------|--|
| Outstanding at December 31, 2015 | 3,154                   | \$38.09 to \$134.37    | \$ 96.73                                       |
| Granted                          | 86                      | \$117.68 to \$130.35   | \$ 122.65                                      |
| Exercised                        | (84)                    | \$44.25 to \$113.36    | \$ 81.97                                       |
| Canceled                         | (54)                    | \$79.15 to \$128.93    | \$ 110.99                                      |
| Outstanding at April 2, 2016     | 3,102                   | \$38.09 to \$134.37    | \$ 97.60                                       |

*Restricted Stock*

During the three months ended April 2, 2016, the Company granted eight thousand shares of restricted stock. The fair value of these awards on the grant date was \$130.35 per share.

*Restricted Stock Units*

The following table summarizes the unvested restricted stock unit award activity for the three months ended April 2, 2016 (in thousands, except for per share amounts):

|                               | <b>Shares</b> | <b>Weighted-Average<br/>Price</b> |
|-------------------------------|---------------|-----------------------------------|
| Unvested at December 31, 2015 | 497           | \$ 104.16                         |
| Granted                       | 135           | \$ 117.68                         |
| Vested                        | (134)         | \$ 97.51                          |
| Forfeited                     | (1)           | \$ 101.87                         |
| Unvested at April 2, 2016     | 497           | \$ 109.63                         |

Restricted stock units are generally granted annually in February and vest in equal annual installments over a five-year period.

**8 Earnings Per Share**

Basic and diluted earnings per share ( EPS ) calculations are detailed as follows (in thousands, except per share data):

|  | <b>Three Months Ended April 2, 2016</b> |                  |                  |
|--|---|------------------|------------------|
|  | <b>Net</b>                              | <b>Weighted-</b> |                  |
|  | <b>Income</b>                           | <b>Average</b>   | <b>Per Share</b> |
|  | <b>(Numerator)</b>                      | <b>Shares</b>    | <b>Amount</b>    |
|  | <b>(Denominator)</b>                    |                  |                  |
| Net income per basic common share  | \$ 94,052                               | 81,275           | \$ 1.16          |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities |   | 699              | (0.01)           |
| Net income per diluted common share  | \$ 94,052                               | 81,974           | \$ 1.15          |

|  | <b>Three Months Ended April 4, 2015</b> |                       |               |
|--|---|-----------------------|---------------|
|  | <b>Net</b>                              | <b>Weighted-</b>      | <b>Per</b>    |
|  | <b>Income</b>                           | <b>Average Shares</b> | <b>Share</b>  |
|  | <b>(Numerator)</b>                      | <b>(Denominator)</b>  | <b>Amount</b> |
| Net income per basic common share  | \$ 96,061                               | 83,025                | \$ 1.16       |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities |   | 727                   | (0.01)        |
| Net income per diluted common share  | \$ 96,061                               | 83,752                | \$ 1.15       |

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

For the three months ended April 2, 2016 and April 4, 2015, the Company had 1.2 million and 0.6 million stock options that were antidilutive, respectively, due to having higher exercise prices than the Company's average stock price during the period. These securities were not included in the computation of diluted EPS. The effect of dilutive securities was calculated using the treasury stock method.

**9 Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income are detailed as follows (in thousands):

|  | <b>Currency<br/>Translation</b> | <b>Unrealized Gain<br/>(Loss) on Benefit<br/>Plans</b> | <b>Unrealized Gain<br/>(Loss) on<br/>Investments</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> |
|--|---------------------------------|--|--|--|
| Balance at December 31, 2015                     | \$ (103,570)                    | \$ (40,946)  | \$ (2,210)   | \$ (146,726)   |
| Other comprehensive income<br>(loss), net of tax | 16,051                          | (468)  | 3,196  | 18,779   |
| Balance at April 2, 2016                         | \$ (87,519)                     | \$ (41,414)  | \$ 986   | \$ (127,947)   |

**10 Retirement Plans**

The Company sponsors various retirement plans. The summary of the components of net periodic pension costs for the plans for the three months ended April 2, 2016 and April 4, 2015 is as follows (in thousands):

|                                     | <b>Three Months Ended</b>         |   |                                       |                                   |   |                                       |
|-------------------------------------|-----------------------------------|---|---------------------------------------|-----------------------------------|---|---------------------------------------|
|                                     | <b>April 2, 2016</b>              |   |                                       | <b>April 4, 2015</b>              |   |                                       |
|                                     | <b>U.S.<br/>Pension<br/>Plans</b> | <b>U.S. Retiree<br/>Healthcare<br/>Plan</b> | <b>Non-U.S.<br/>Pension<br/>Plans</b> | <b>U.S.<br/>Pension<br/>Plans</b> | <b>U.S. Retiree<br/>Healthcare<br/>Plan</b> | <b>Non-U.S.<br/>Pension<br/>Plans</b> |
| Service cost                        | \$ 94                             | \$ 116                                      | \$ 1,218                              | \$ 262                            | \$ 1,337                                    | \$ 1,337                              |
| Interest cost                       | 1,745                             | 135   | 421                                   | 1,513                             | 118   | 402                                   |
| Expected return on plan assets      | (2,417)                           | (130)                                       | (399)                                 | (2,318)                           | (122)                                       | (410)                                 |
| Net amortization:                   |                                   |   |                                       |                                   |   |                                       |
| Prior service (credit) cost         |                                   |   | (45)                                  |                                   |   | 14                                    |
| Net actuarial loss                  | 667                               |   | 188                                   | 679                               |   | 273                                   |
| Net periodic pension cost (benefit) | \$ 89                             | \$ 121                                      | \$ 1,383                              | \$ (126)                          | \$ 258                                      | \$ 1,616                              |

During fiscal year 2016, the Company expects to contribute a total of approximately \$5 million to \$10 million to the Company's defined benefit plans.

## **11 Business Segment Information**

The Company's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the Company determined that it has two operating segments: Waters and TA.

The Waters operating segment is primarily in the business of designing, manufacturing, distributing and servicing LC and MS instruments, columns and other chemistry consumables that can be integrated and used along with other analytical instruments. The TA operating segment is primarily in the business of designing, manufacturing, distributing and servicing thermal analysis, rheometry and calorimetry instruments. The Company's two operating segments have similar economic characteristics; product processes; products and services; types and classes of customers; methods of distribution and regulatory environments. Because of these similarities, the two segments have been aggregated into one reporting segment for financial statement purposes. Please refer to the consolidated financial statements for financial information regarding the one reportable segment of the Company.

**Table of Contents****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

Net sales for the Company's products and services are as follows for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|                            | <b>Three Months Ended</b> |                      |
|----------------------------|---------------------------|----------------------|
|                            | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| <b>Product net sales:</b>  |                           |                      |
| Waters instrument systems  | \$ 188,529                | \$ 188,504           |
| Chemistry                  | 84,150                    | 78,183               |
| TA instrument systems      | 35,178                    | 36,186               |
| <b>Total product sales</b> | <b>307,857</b>            | <b>302,873</b>       |
| <b>Service net sales:</b>  |                           |                      |
| Waters service             | 151,514                   | 142,981              |
| TA service                 | 15,875                    | 14,550               |
| <b>Total service sales</b> | <b>167,389</b>            | <b>157,531</b>       |
| <b>Total net sales</b>     | <b>\$ 475,246</b>         | <b>\$ 460,404</b>    |

**12 Recent Accounting Standard Changes and Developments***Recently Issued Accounting Standards*

In May 2014, amended accounting guidance was issued regarding the recognition of revenue from contracts with customers. The objective of this guidance is to significantly enhance comparability and clarify principles of revenue recognition practices across entities, industries, jurisdictions and capital markets. This guidance was originally effective for annual and interim reporting periods beginning after December 15, 2016; however, the Financial Accounting Standards Board has amended the standard in August 2015 to delay the effective period date by one year to annual and interim periods beginning after December 15, 2017. Adoption prior to December 15, 2016 is not permitted. The Company is currently evaluating its adoption method and the potential impact that the adoption of this standard will have on the Company's financial position, results of operations and cash flows.

In July 2015, accounting guidance was issued which clarifies the measurement of inventory. The new guidance requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations and cash flows.

In January 2016, accounting guidance was issued which primarily affects the classification and measurement of certain financial instruments, principally equity investments and certain financial liabilities. Under the new guidance,



there will no longer be an available-for-sale classification for equity securities with readily determinable fair values. Changes to the fair value of equity investments will be recognized through earnings. Equity investments carried at cost should be adjusted for changes in observable prices, as applicable, and qualitatively assessed for impairment annually. Changes to the fair value of financial liabilities under the fair value option due to instrument specific credit risk will be recognized separately in other comprehensive income. The new guidance also requires financial assets and financial liabilities to be presented separately and grouped by measurement category in the notes to the financial statements. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption of certain provisions of this guidance is permitted. The Company is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations and cash flows.

In February 2016, accounting guidance was issued regarding the accounting for leases. This new comprehensive lease standard amends various aspects of existing accounting guidance for leases. The core principle of the new guidance will require lessees to present the assets and liabilities that arise from leases on their balance sheets. This

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**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)**

guidance is effective for annual and interim reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations and cash flows.

In March 2016, accounting guidance was issued which simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations and cash flows.

**Table of Contents****Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations  
Business and Financial Overview**

The Company has two operating segments: Waters and TA<sup>®</sup>. Waters products and services primarily consist of high performance liquid chromatography ( HPLC ), ultra performance liquid chromatography ( UPLC ) and together with HPLC, referred to as LC ), mass spectrometry ( MS ) and chemistry consumable products and related services. TA products and services primarily consist of thermal analysis, rheometry and calorimetry instrument systems and service sales. The Company's products are used by pharmaceutical, biochemical, industrial, nutritional safety, environmental, academic and governmental customers. These customers use the Company's products to detect, identify, monitor and measure the chemical, physical and biological composition of materials and to predict the suitability and stability of fine chemicals, pharmaceuticals, water, polymers, metals and viscous liquids in various industrial, consumer goods and healthcare products.

The Company's operating results are as follows for the three months ended April 2, 2016 and April 4, 2015 (in thousands, except per share data):

|  | <b>Three Months Ended</b> |                      |                 |
|--|---------------------------|----------------------|-----------------|
|  | <b>April 2, 2016</b>      | <b>April 4, 2015</b> | <b>% Change</b> |
| Product sales                              | \$ 307,857                | \$ 302,873           | 2%              |
| Service sales                              | 167,389                   | 157,531              | 6%              |
| Total net sales                            | 475,246                   | 460,404              | 3%              |
| Total cost of sales                        | 201,151                   | 189,246              | 6%              |
| Gross profit                               | 274,095                   | 271,158              | 1%              |
| <i>Gross profit as a % of sales</i>        | <i>57.7%</i>              | <i>58.9%</i>         |                 |
| Selling and administrative expenses        | 129,351                   | 119,751              | 8%              |
| Research and development expenses          | 29,438                    | 28,951               | 2%              |
| Purchased intangibles amortization         | 2,644                     | 2,474                | 7%              |
| Operating income                           | 112,662                   | 119,982              | (6%)            |
| <i>Operating income as a % of sales</i>    | <i>23.7%</i>              | <i>26.1%</i>         |                 |
| Interest expense, net                      | (6,032)                   | (6,635)              | (9%)            |
| Income from operations before income taxes | 106,630                   | 113,347              | (6%)            |
| Provision for income taxes                 | 12,578                    | 17,286               | (27%)           |
| Net income                                 | \$ 94,052                 | \$ 96,061            | (2%)            |
| Net income per diluted common share        | \$ 1.15                   | \$ 1.15              |                 |

Sales in the first quarter of 2016 grew 3%, with foreign currency translation reducing sales growth by 2%. The 2016 sales growth can be attributed to strong demand from the Company's products and services from its pharmaceutical customers. Recurring revenues (combined sales of chemistry consumables and services) increased 7% in the first quarter of 2016, with foreign currency translation negatively impacting recurring revenues by 1%. Instrument system sales were flat in the first quarter of 2016, with foreign currency translation reducing instrument system sales by 2%.

Recent acquisitions added 1% to sales for the quarter.

In the first quarter of 2016, sales to pharmaceutical customers increased 7%, with double-digit sales growth in the US, China and Japan. Combined sales to industrial chemical, nutritional safety and environmental customers decreased 1% for the quarter and combined global sales to governmental and academic customers decreased 2% for the quarter, with the effect of foreign currency translation negatively impacting sales to both these customer classes by 1%.

The increase in gross profit for the quarter was primarily a result of higher sales volumes offsetting the negative effect of foreign currency translation, as well as higher margins resulting from a favorable sales mix as compared to the prior year. Based on current foreign currency exchange rates and forecasts, the Company estimates that the full year impact of foreign currency translation on gross profit will be slightly negative.

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Selling and administrative expenses increased 8% for the quarter, primarily as a result of headcount additions and higher merit compensation, as well as \$7 million of stock compensation expense related to the modification of certain stock awards upon the retirement of senior executives. Net income per diluted share for the quarter benefited from an increase in sales and fewer shares outstanding due to additional share repurchases. Foreign currency translation decreased net income per diluted share by approximately \$0.08 in the first quarter of 2016 as compared to the first quarter of 2015.

Net cash provided by operating activities for the quarter was \$160 million and \$155 million in 2016 and 2015, respectively. The \$5 million increase was primarily a result of higher sales volumes and the timing of payments to vendors and collection of receivables from customers. Within cash flows used in investing activities, capital expenditures related to property, plant, equipment and software capitalization were \$25 million and \$21 million for the first quarters of 2016 and 2015, respectively.

Within cash flows used in financing activities, the Company received \$8 million and \$11 million of proceeds from stock plans in the first quarters of 2016 and 2015, respectively. Fluctuations in these amounts were primarily attributable to changes in the Company's stock price. In May 2014, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a three-year period. The Company repurchased \$89 million and \$85 million of the Company's outstanding common stock in 2016 and 2015, respectively, under the May 2014 authorization and other previously announced programs. The Company believes that it has the financial flexibility to fund these share repurchases given current cash levels and debt borrowing capacity, as well as to invest in research, technology and business acquisitions to further grow the Company's sales and profits.

**Results of Operations***Sales by Geography*

Geographic sales information is presented below for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|                 | <b>Three Months Ended</b> |                      |                 |
|-----------------|---------------------------|----------------------|-----------------|
|                 | <b>April 2, 2016</b>      | <b>April 4, 2015</b> | <b>% Change</b> |
| Net Sales:      |                           |                      |                 |
| United States   | \$ 148,954                | \$ 146,375           | 2%              |
| Europe          | 125,032                   | 124,401              | 1%              |
| Asia:           |                           |                      |                 |
| China           | 70,821                    | 62,174               | 14%             |
| Japan           | 44,423                    | 39,191               | 13%             |
| Asia Other      | 56,229                    | 57,058               | (1%)            |
| Total Asia      | 171,473                   | 158,423              | 8%              |
| Other           | 29,787                    | 31,205               | (5%)            |
| Total net sales | \$ 475,246                | \$ 460,404           | 3%              |

The increase in sales in the U.S. for the quarter was driven by sales of LC instruments, services and consumables to pharmaceutical customers. The increase in Europe's sales for the quarter was more broadly distributed across customer

classes and primarily driven by sales of LC instruments, services and consumables. China achieved strong sales growth across all customer classes and double-digit sales growth for all product classes. Japan experienced double-digit sales growth for instrument systems and for sales to pharmaceutical, industrial chemical, nutritional safety and environmental customers. Sales to the rest of Asia were negatively impacted by the effects of foreign currency translation as strong sales to pharmaceutical, industrial chemical, nutritional safety and environmental customers grew in local currency and were driven primarily by an increase in India's sales.

**Table of Contents***Waters Net Sales*

Net sales for Waters products and services are as follows for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|                            | <b>Three Months Ended</b> |                       |                      |                       |                 |
|----------------------------|---------------------------|-----------------------|----------------------|-----------------------|-----------------|
|                            | <b>April 2, 2016</b>      | <b>% of<br/>Total</b> | <b>April 4, 2015</b> | <b>% of<br/>Total</b> | <b>% Change</b> |
| Waters instrument systems  | \$ 188,529                | 44%                   | \$ 188,504           | 46%                   |                 |
| Chemistry                  | 84,150                    | 20%                   | 78,183               | 19%                   | 8%              |
| Total Waters product sales | 272,679                   | 64%                   | 266,687              | 65%                   | 2%              |
| Waters service             | 151,514                   | 36%                   | 142,981              | 35%                   | 6%              |
| Total Waters net sales     | \$ 424,193                | 100%                  | \$ 409,668           | 100%                  | 4%              |

Waters instrument system sales (LC and LC-MS) were flat in the quarter due to a strong base of comparison in the prior year as instrument system sales grew 7% in the first quarter of 2015. In addition, foreign currency translation reduced instrument systems sales by 2% and the nominal sales growth achieved can be attributed to the newly introduced ACQUITY® Arc system and the ACQUITY® QDa® Detectors. The 7% increase in recurring revenues for the quarter primarily resulted from a combination of a higher utilization rate of installed instrument systems and a higher base of installed instruments. The effect of foreign currency translation decreased Waters sales by 1% and recent acquisitions had a minimal impact on sales.

Waters sales increased 2% in the U.S., 1% in Europe, with foreign currency translation decreasing sales in Europe by 2%, 12% in China, 11% in Japan and 1% in the rest of Asia. Waters sales in the rest of the world decreased 5% for the quarter.

*TA Net Sales*

Net sales for TA products and services are as follows for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

|                       | <b>Three Months Ended</b> |                       |                      |                       |                 |
|-----------------------|---------------------------|-----------------------|----------------------|-----------------------|-----------------|
|                       | <b>April 2, 2016</b>      | <b>% of<br/>Total</b> | <b>April 4, 2015</b> | <b>% of<br/>Total</b> | <b>% Change</b> |
| TA instrument systems | \$ 35,178                 | 69%                   | \$ 36,186            | 71%                   | (3%)            |
| TA service            | 15,875                    | 31%                   | 14,550               | 29%                   | 9%              |
| Total TA net sales    | \$ 51,053                 | 100%                  | \$ 50,736            | 100%                  | 1%              |

TA's recent acquisitions increased sales by 5% in the first quarter of 2016. TA service sales increased in the quarter due to sales of service plans and billings to a higher installed base of customers. The decrease in TA instrument system sales was primarily due to declines in both the thermal and rheometry product lines as compared with strong

sales growth achieved in the first quarter of 2015. In addition, new instrument system launches in the first quarter are believed to have contributed to delays in sales. The effect of foreign currency translation had a minimal impact on TA sales in 2016.

Geographically, TA sales decreased 2% in the U.S. and 9% in Europe, with the effects of foreign currency translation reducing European sales by 3%. TA's total sales in Asia increased 9%, with sales growth of 28% in China and 33% in Japan. TA sales to the rest of the world grew 4% in the quarter.

#### *Gross Profit*

Gross profit increased 1% for the quarter, primarily as a result of higher sales volumes offsetting the negative effect of foreign currency translation, as well as higher margins resulting from a favorable sales mix as compared to the prior year. In addition, gross profit as a percentage of sales for the quarter was negatively impacted by the effect of foreign currency translation.

Gross profit as a percentage of sales is affected by many factors, including, but not limited to, foreign currency translation, product mix, price, product costs of instrument systems and amortization of software platforms. The Company expects that the impact of foreign currency translation will have a slightly negative affect gross profit for the remainder of 2016, based on current exchange rates.



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*Selling and Administrative Expenses*

Selling and administrative expenses increased 8% for the quarter, primarily as a result of headcount additions and higher merit compensation, as well as \$7 million of stock compensation expense related to the modification of certain stock awards upon the retirement of senior executives. As a percentage of net sales, selling and administrative expenses were 27.2% and 26.0% for the 2016 and 2015 quarters, respectively.

*Research and Development Expenses*

Research and development expenses increased 2% for the quarter, as an increase in the Company's research and development initiatives in the U.K. were offset by the favorable effect of foreign currency translation, resulting from the weakening of the British pound against the U.S. dollar.

*Interest Expense, Net*

The decrease in net interest expense for the three months ended April 2, 2016 was primarily attributable to higher income earned on increased cash and investment balances.

*Provision for Income Taxes*

The four principal jurisdictions in which the Company manufactures are the U.S., Ireland, the United Kingdom and Singapore, where the marginal effective tax rates were approximately 37.5%, 12.5%, 20% and 0%, respectively, as of April 2, 2016. The Company has a contractual tax rate in Singapore of 0% through March 2021, based upon the achievement of certain contractual milestones, which the Company expects to continue to meet. The current statutory tax rate in Singapore is 17%. For the first quarter of 2016, the effect of applying the contractual tax rate in Singapore, as compared with applying the statutory tax rate, increased net income by \$4 million and increased net income per diluted share by \$0.05. The Company's effective tax rate is influenced by many significant factors, including, but not limited to, the wide range of income tax rates in jurisdictions in which the Company operates; sales volumes and profit levels in each tax jurisdiction; changes in tax laws, tax rates and policies; the outcome of various ongoing tax audit examinations; and the impact of foreign currency transactions and translation. As a result of variability in these factors, the Company's effective tax rates in the future may not be similar to the effective tax rates for the current or prior year.

The Company's effective tax rate for the quarter was 11.8% and 15.3% for 2016 and 2015, respectively. The decrease in the effective tax rate in 2016 as compared to 2015 can be attributed to a quarter-specific tax benefit associated with modifications to certain stock compensation awards. In addition, the income tax provision for 2015 included a quarter-specific tax provision related to a pending tax audit settlement. The remaining differences between the effective tax rate in 2016 and 2015 were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

**Table of Contents****Liquidity and Capital Resources*****Condensed Consolidated Statements of Cash Flows (in thousands):***

|  | <b>Three Months Ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>April 2, 2016</b>      | <b>April 4, 2015</b> |
| Net income   | \$ 94,052                 | \$ 96,061            |
| Depreciation and amortization                                | 23,431                    | 22,549               |
| Stock-based compensation                                     | 15,841                    | 8,455                |
| Deferred income taxes  | 3,740                     | 2,828                |
| Change in accounts receivable                                | 38,254                    | 24,961               |
| Change in inventories  | (20,488)                  | (20,001)             |
| Change in accounts payable and other current liabilities     | (43,632)                  | (25,518)             |
| Change in deferred revenue and customer advances             | 45,586                    | 42,555               |
| Other changes  | 3,102                     | 2,700                |
| Net cash provided by operating activities                    | 159,886                   | 154,590              |
| Net cash used in investing activities                        | (197,823)                 | (56,446)             |
| Net cash used in financing activities                        | (37,397)                  | (60,274)             |
| Effect of exchange rate changes on cash and cash equivalents | 4,056                     | (19,249)             |
| (Decrease) increase in cash and cash equivalents             | \$ (71,278)               | \$ 18,621            |

***Cash Flow from Operating Activities***

Net cash provided by operating activities was \$160 million and \$155 million in the three months ended April 2, 2016 and April 4, 2015, respectively. The changes within net cash provided by operating activities in 2016 as compared to 2015 include the following significant changes in the sources and uses of net cash provided by operating activities, aside from the decrease in net income:

The change in accounts receivable in 2016 as compared to 2015 was primarily attributable to timing of payments made by customers and timing of sales. Days-sales-outstanding ( DSO ) increased to 84 days at April 2, 2016 from 78 days at April 4, 2015, with the effects of foreign currency increasing DSO by 2 days.

The change in inventory in both 2016 and 2015 is primarily attributable to anticipated annual increases in sales volumes, as well as new product launches.

The 2016 and 2015 change in accounts payable and other current liabilities was a result of timing of payments to vendors, as well as the annual payment of management incentive compensation.

Net cash provided from deferred revenue and customer advances in both 2016 and 2015 was a result of increases in service contracts as a higher installed base of customers renew annual service contracts.

Other changes were attributable to variation in the timing of various provisions, expenditures, prepaid income taxes and accruals in other current assets, other assets and other liabilities.

*Cash Used in Investing Activities*

Net cash used in investing activities in the quarter totaled \$198 million and \$56 million in 2016 and 2015, respectively. Additions to fixed assets and capitalized software were \$25 million and \$21 million in 2016 and 2015, respectively. During 2016 and 2015, the Company purchased \$686 million and \$794 million of investments, while \$512 million and \$759 million of investments matured, respectively.

*Cash Used in Financing Activities*

During 2016 and 2015, the Company's net debt borrowings increased by \$50 million and \$20 million, respectively. As of April 2, 2016, the Company had a total of \$1,719 million in outstanding debt, which consisted of \$450 million in outstanding senior unsecured notes, \$300 million borrowed under a term loan facility under the Amended Credit Agreement, \$970 million borrowed under a revolving credit facility under the Amended Credit Agreement and less than \$1 million borrowed under various other short-term lines of credit, offset by \$2 million of unamortized debt issuance costs. At April 2, 2016, \$125 million of the outstanding portion of the revolving facility was classified as short-term liabilities in the consolidated balance sheet due to the fact that the Company expects to repay this portion

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of the borrowing under the revolving line of credit within the next twelve months. The remaining \$845 million of the outstanding portion of the revolving facility was classified as long-term liabilities in the consolidated balance sheet, as this portion is not expected to be repaid within the next twelve months. As of April 2, 2016, the Company had a total amount available to borrow under the Amended Credit Agreement of \$328 million after outstanding letters of credit. As of April 2, 2016, the Company was in compliance with all debt covenants.

In May 2014, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a three-year period. The Company repurchased 0.7 million shares of the Company's outstanding common stock during both 2016 and 2015 at a cost of \$89 million and \$85 million, respectively, under the May 2014 and other previously announced programs. As of April 2, 2016, the Company had a total of \$352 million authorized for future repurchases under the May 2014 plan. In addition, the Company repurchased \$6 million of common stock related to the vesting of restricted stock units during both 2016 and 2015.

The Company received \$8 million and \$11 million of proceeds from the exercise of stock options and the purchase of shares pursuant to the Company's employee stock purchase plan in 2016 and 2015, respectively.

The Company had cash, cash equivalents and investments of \$2,505 million as of April 2, 2016. The majority of the Company's cash, cash equivalents and investments are generated from foreign operations, with \$2,478 million held by foreign subsidiaries at April 2, 2016, of which \$241 million were held in currencies other than U.S. dollars. Due to the fact that most of the Company's cash, cash equivalents and investments are held outside of the U.S., the Company must manage and maintain sufficient levels of cash flow in the U.S. to fund operations and capital expenditures, service debt interest, finance potential U.S. acquisitions and continue the authorized stock repurchase program in the U.S. These U.S. cash requirements are managed by the Company's cash flow from U.S. operations and the use of the Company's revolving credit facility.

Management believes, as of the date of this report, that its financial position, particularly in the U.S., along with expected future cash flows from earnings based on historical trends and the ability to raise funds from external sources and the borrowing capacity from existing, committed credit facilities, will be sufficient to service debt and fund working capital and capital spending requirements, authorized share repurchase amounts and potential acquisitions. In addition, there have been no recent significant changes to the Company's financial position, nor are there any anticipated changes, to warrant a material adjustment related to indefinitely reinvested foreign earnings.

## **Contractual Obligations, Commercial Commitments, Contingent Liabilities and Dividends**

A summary of the Company's contractual obligations and commercial commitments is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (SEC) on February 26, 2016. The Company reviewed its contractual obligations and commercial commitments as of April 2, 2016 and determined that there were no material changes from the information set forth in the Annual Report on Form 10-K.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of business. The Company believes that it has meritorious arguments in its current litigation matters and that any outcome, either individually or in the aggregate, will not be material to the Company's financial position or results of operations.

During fiscal year 2016, the Company expects to contribute a total of approximately \$5 million to \$10 million to the Company's defined benefit plans.

The Company has not paid any dividends and has no plans, at this time, to pay any dividends in the future.

**Off-Balance Sheet Arrangements**

The Company has not created, and is not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of its business that are not consolidated (to the extent of the Company's ownership interest therein) into the consolidated financial statements. The Company has not entered into any transactions with unconsolidated entities whereby it has subordinated retained interests, derivative instruments or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

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The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to its current products, as well as claims relating to property damage or personal injury resulting from the performance of services by the Company or its subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, the Company's costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and management accordingly believes the estimated fair value of these agreements is immaterial.

## **Critical Accounting Policies and Estimates**

In the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016, the Company's most critical accounting policies and estimates upon which its financial status depends were identified as those relating to revenue recognition, loss provisions on accounts receivable and inventory, valuation of long-lived assets, intangible assets and goodwill, warranty, income taxes, pension and other postretirement benefit obligations, litigation, business combinations and asset acquisitions, valuation of contingent consideration and stock-based compensation. The Company reviewed its policies and determined that those policies remain the Company's most critical accounting policies for the three months ended April 2, 2016. The Company did not make any changes in those policies during the three months ended April 2, 2016.

## **New Accounting Pronouncements**

Please refer to Note 12, Recent Accounting Standards Changes and Developments, in the Condensed Notes to Consolidated Financial Statements.

## **Special Note Regarding Forward-Looking Statements**

Certain of the statements in this Quarterly Report on Form 10-Q, including the information incorporated by reference herein, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), with respect to future results and events, including any statements regarding, among other items, anticipated trends or growth in the Company's business, including, but not limited to, the impact of foreign currency translation on financial results; development of products by acquired businesses; the growth rate of sales and research and development expenses; the impact of costs associated with developing new technologies and bringing these new technologies to market; the impact of new product launches and the associated costs, such as the amortization expense related to software platforms; geographic sales mix of business; development of products by acquired businesses and the amount of contingent payments to the sellers of an acquired business; anticipated expenses, including interest expense, capitalized software costs and effective tax rates; the impact and outcome of the Company's various ongoing tax audit examinations; the achievement of contractual milestones to preserve foreign tax rates; the impact and outcome of litigation matters; the impact of the loss of intellectual property protection; the impact of new accounting standards and pronouncements; the adequacy of the Company's supply chain and manufacturing capabilities and facilities; the impact of regulatory compliance; the Company's expected cash flow, borrowing capacity, debt repayment and refinancing; the Company's ability to fund working capital, capital expenditures, service debt, repay outstanding lines of credit, make authorized share repurchases, fund potential acquisitions and pay any adverse litigation or tax audit liabilities, particularly in the U.S.; future impairment charges; the Company's contributions to defined benefit plans; the Company's expectations regarding changes to its financial position; compliance with applicable environmental laws; and the impact of recent acquisitions on sales and earnings.

Many of these statements appear, in particular, under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Quarterly Report on Form 10-Q. Statements that are not statements of historical fact may be deemed forward-looking statements. You can identify these forward-looking statements by the use of the words feels, believes, anticipates, plans, expects, may, will, would, intend, appears, estimates, projects, should and similar expressions, whether in the negative or affirmative. These statements are subject to various risks and uncertainties, many of which are outside the control of the Company, including, and without limitation:

Foreign exchange rate fluctuations that could adversely affect translation of the Company's future sales, financial operating results and the condition of its non-U.S. operations, especially when a currency weakens against the U.S. dollar.

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Current global economic, sovereign and political conditions and uncertainties, particularly regarding the effect of the Chinese government's ongoing tightening of restrictions on procurement by government-funded customers; the Company's ability to access capital and maintain liquidity in volatile market conditions of customers; changes in timing and demand by the Company's customers and various market sectors, particularly if they should reduce capital expenditures or are unable to obtain funding, as in the cases of governmental, academic and research institutions; the effect of mergers and acquisitions on customer demand; and the Company's ability to sustain and enhance service.

Negative industry trends; changes in the competitive landscape as a result of changes in ownership, mergers and continued consolidation among the Company's competitors; introduction of competing products by other companies and loss of market share; pressures on prices from customers or resulting from competition; regulatory, economic and competitive obstacles to new product introductions; lack of acceptance of new products; expansion of our business in developing markets; spending by certain end-markets; ability to obtain alternative sources for components and modules; and the possibility that future sales of new products related to acquisitions, which trigger contingent purchase payments, may exceed the Company's expectations.

Increased regulatory burdens as the Company's business evolves, especially with respect to the Food and Drug Administration and Environmental Protection Agency, among others, as well as regulatory, environmental and logistical obstacles affecting the distribution of the Company's products, completion of purchase order documentation by our customers and ability of customers to obtain letters of credit or other financing alternatives.

Risks associated with lawsuits, particularly involving claims for infringement of patents and other intellectual property rights.

The impact and costs incurred from changes in accounting principles and practices; the impact and costs of changes in statutory or contractual tax rates; shifts in taxable income among jurisdictions with different effective tax rates; and the outcome of and costs associated with ongoing and future tax audit examinations or changes in respective country legislation affecting the Company's effective rates.

Certain of these and other factors are discussed under the heading "Risk Factors" under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements, whether because of these factors or for other reasons. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this report. The Company does not assume any obligation to update any forward-looking statements.

### **Item 3: *Quantitative and Qualitative Disclosures About Market Risk***

There have been no material changes in the Company's market risk during the three months ended April 2, 2016. For information regarding the Company's market risk, refer to Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016.



**Item 4: Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

The Company's chief executive officer and chief financial officer (principal executive and principal financial officer), with the participation of management, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of April 2, 2016 (1) to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, to allow timely decisions

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regarding the required disclosure and (2) to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

*Changes in Internal Controls Over Financial Reporting*

No change was identified in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended April 2, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II: Other Information****Item 1: Legal Proceedings**

There have been no material changes in the Company's legal proceedings during the three months ended April 2, 2016 as described in Item 3 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016.

**Item 1A: Risk Factors**

Information regarding risk factors of the Company is set forth under the heading "Risk Factors" under Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 26, 2016. The Company reviewed its risk factors as of April 2, 2016 and determined that there were no material changes from the ones set forth in the Form 10-K. Note, however, the discussion under the subheading "Special Note Regarding Forward-Looking Statements" in Part I, Item 2 of this quarterly report on Form 10-Q. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and operating results.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds***Purchases of Equity Securities by the Issuer*

The following table provides information about purchases by the Company during the three months ended April 2, 2016 of equity securities registered by the Company under the Exchange Act (in thousands, except per share data):

| <b>Period</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased (1)</b> | <b>Average<br/>Price Paid<br/>per<br/>Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of Publicly<br/>Announced<br/>Plans<br/>or<br/>Programs</b> | <b>Maximum Dollar<br/>Value of Shares that<br/>May Yet Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs (2)</b> |
|---------------|---|---|---|---|
|---------------|---|---|---|---|

(2)

|                                 |     |    |        |     |            |
|---------------------------------|-----|----|--------|-----|------------|
| January 1 to January 30, 2016   |     | \$ |        | \$  | 441,435    |
| January 31 to February 27, 2016 | 512 | \$ | 118.72 | 485 | \$ 383,836 |
| February 28 to April 2, 2016    | 279 | \$ | 124.39 | 260 | \$ 351,523 |
| Total                           | 791 | \$ | 120.72 | 745 | \$ 351,523 |

- (1) In addition to the stock repurchase program described below, the Company repurchased shares of its outstanding common stock in relation to the vesting of restricted stock units.
- (2) In May 2014, the Company's Board of Directors authorized the repurchase of up to \$750 million of its outstanding common stock in open market transactions over a three-year period.

**Table of Contents****Item 6: Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description of Document</b>   |
|---------------------------|--|
| 31.1                      | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2                      | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1 *                    | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2 *                    | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101                       | The following materials from Waters Corporation's Quarterly Report on Form 10-Q for the quarter ended April 2, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets (unaudited), (ii) the Consolidated Statements of Operations (unaudited), (iii) the Consolidated Statements of Comprehensive Income (unaudited), (iv) the Consolidated Statements of Cash Flows (unaudited), and (v) Condensed Notes to Consolidated Financial Statements (unaudited). |

\* This exhibit shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any filing, except to the extent the Company specifically incorporates it by reference.

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**SIGNATURE**

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

WATERS CORPORATION

/s/ EUGENE G. CASSIS  
Eugene G. Cassis  
*Senior Vice President and  
Chief Financial Officer*

Date: May 6, 2016