WATERS CORP /DE/
Form 10-K
February 26, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 01-14010

Waters Corporation

(Exact name of registrant as specified in its charter)

Delaware	**13-3668640**
(State or other jurisdiction of incorporation or organization)	*(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)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $0.01 per share

New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a 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 þ

State the aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of July 4, 2015: $10,641,836,000.

Indicate the number of shares outstanding of the registrant s common stock as of February 19, 2016: 81,253,669

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement that will be filed for the 2016 Annual Meeting of Stockholders are incorporated by reference in Part III.

Table of Contents

WATERS CORPORATION AND SUBSIDIARIES

ANNUAL REPORT ON FORM 10-K

INDEX

Table of Contents

PART I

Item 1: ***Business***
General

Waters Corporation (Waters® or the Company) is an analytical instrument manufacturer that primarily designs, manufactures, sells and services, through its Waters Division, 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. Through its TA Division (TA®), the Company primarily designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments. 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 products are used by life science (including pharmaceutical), biochemical, industrial, nutritional safety, environmental, academic and governmental customers working in research and development, quality assurance and other laboratory applications. The Company s LC and LC-MS instruments are utilized in this 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. These 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. The Company s thermal analysis, rheometry and calorimetry instruments are used in predicting the suitability and stability of fine chemicals, pharmaceuticals, water, polymers, metals and viscous liquids in various industrial, consumer goods and healthcare products, as well as for life science research.

Waters, organized as a Delaware corporation in 1991, is a holding company that owns all of the outstanding common stock of Waters Technologies Corporation, its operating subsidiary. Waters became a publicly-traded company with its initial public offering (IPO) in November 1995. Since the IPO, the Company has added two significant and complementary technologies to its range of products with the acquisitions of TA Instruments in May 1996 and Micromass Limited (Micromass®) in September 1997.

Business Segments

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 Division and TA Division. The Company operates in the analytical instruments industry by designing, manufacturing, distributing and servicing instrument systems, columns and other chemistry consumables that can be integrated and used along with other analytical instruments. The Company s two operating segments, Waters Division and TA Division, 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 operating segments have been aggregated into one reporting segment for financial statement purposes.

Information concerning revenues and long-lived assets attributable to each of the Company s products, services and geographic areas is set forth in Note 15 in the Notes to the Consolidated Financial Statements, which is incorporated herein by reference.

Table of Contents

Waters Division

High Performance and Ultra Performance Liquid Chromatography

HPLC is a standard technique used to identify and analyze the constituent components of a variety of chemicals and other materials. The Company believes that HPLC s performance capabilities enable it to separate and identify approximately 80% of all known chemicals and materials. As a result, HPLC is used to analyze substances in a wide variety of industries for research and development purposes, quality control and process engineering applications.

The most significant end-use markets for HPLC are those served by life science industries (including pharmaceuticals). In these markets, HPLC is used extensively to understand diseases, identify new drugs, develop manufacturing methods and assure the potency and purity of new pharmaceuticals. HPLC is also used in a variety of other applications, such as analyses of foods and beverages for nutritional labeling and compliance with safety regulations, the testing of water and air purity within the environmental testing industry, as well as applications in other industries, such as chemical and consumer products. HPLC is also used by universities, research institutions and governmental agencies, such as the United States Food and Drug Administration (FDA) and the United States Environmental Protection Agency (EPA) and their foreign counterparts that mandate testing requiring HPLC instrumentation.

In 2004, Waters introduced a novel technology that the Company describes as ultra performance liquid chromatography that utilizes a packing material with small, uniform diameter particles and a specialized instrument, the ACQUITY UPLC®, to accommodate the increased pressure and narrow chromatographic bands that are generated by these small particles. By using the ACQUITY UPLC, researchers and analysts are able to achieve more comprehensive chemical separations and faster analysis times in comparison with many analyses performed by HPLC. In addition, in using ACQUITY UPLC, researchers have the potential to extend the range of applications beyond that of HPLC, enabling them to uncover more levels of scientific information. While offering significant performance advantages, ACQUITY UPLC is also compatible with the Company s software products and the general operating protocols of HPLC. For these reasons, the Company s customers and field sales and support organizations are well positioned to utilize this new technology and instrument. In 2012, the Company introduced UltraPerformance Convergence Chromatography™ (UPC2®) with the release of the ACQUITY® UPC2® system. This new technology marries the unrealized potential of supercritical fluid chromatography (SFC) with the proven UPLC technology, using carbon dioxide as the primary mobile phase. By varying mobile phase strength, pressure, temperature and stationary phase with UPC^2, a user can separate, detect and quantify structural analogs, isomers, enantiomeric and diasteriomeric mixtures all compounds or samples that challenge today s laboratories. In 2013, the Company introduced the ACQUITY® Advanced Polymer Chromatography® (APC™) system. This system delivers improved polymer peak resolution, particularly for low molecular weight polymers and oligomers, up to 20 times faster than traditional gel permeation chromatography. In 2013, the Company introduced the ACQUITY® QDa® Detector, a compact and easy to operate single quadrupole mass spectrometric module that further supports the broader usage of mass detectors in a form similar to that of the broadly used optical detectors that are routinely used for LC applications. The control and data output of the QDa is compatible with Waters most commonly used instrument configurations and the QDa is uniquely positioned to offer mass detection to the large and well established markets for HPLC and UPLC systems. In 2014, the Company introduced the ACQUITY UPLC® M-Class instrument system. This system delivers the sensitivity to quantify and identify vanishingly small concentrations of key molecules, particularly when used with mass spectrometric detection. The innovations incorporated into the ACQUITY UPLC M-Class system are led by its internal low-volume design and newly redesigned fluidics that minimize dispersive and adsorptive losses during a chromatographic separation. In 2015, the Company introduced the ACQUITY® Arc System and its enabling Arc Multi-flow path™ technology, which bridges the gap between HPLC and UPLC by emulating a variety of HPLC systems without altering the method s gradient table and enabling improved chromatographic performance of methods by leveraging 2.5-2.7 micron particle column technologies.

Table of Contents

Waters manufactures LC instruments that are offered in configurations that allow for varying degrees of automation, from component configured systems for academic teaching and research applications to fully automated systems for regulated testing, and that have a variety of detection technologies, from ultra-violet (UV) absorbance to MS, optimized for certain analyses. The Company also manufactures tailored LC systems for the analysis of biologics, as well as an LC detector utilizing evaporative light scattering technology to expand the usage of LC to compounds that are not amenable to UV absorbance detection.

The primary consumable products for LC are chromatography columns. These columns are packed with separation media used in the LC testing process and are typically replaced at regular intervals. The chromatography column contains one of several types of packing material, typically stationary phase particles made from silica. As the sample permeates through the column, it is separated into its constituent components.

Waters HPLC columns can be used on Waters-branded and competitors LC systems. The Company believes that it is one of a few suppliers in the world that processes silica, packs columns and distributes its own products. In doing so, the Company believes it can better ensure product consistency, a key attribute for its customers in quality control laboratories, and can react quickly to new customer requirements. The Company believes that its ACQUITY UPLC lines of columns are used primarily on its ACQUITY UPLC instrument systems and, furthermore, that its ACQUITY UPLC instruments primarily use ACQUITY UPLC columns. In 2013, the Company introduced the CORTECS® family of 1.6 micron solid-core silica-based UPLC columns to further extend the application range and performance of its UPLC offerings. In 2014, the Company expanded its CORTECS family with a new line of 2.7 micron silica-based, solid-core particle columns for usage on UPLC, as well as HPLC systems. In addition, the Company introduced size exclusion chromatography columns for the characterization of proteins and ACQUITY UPC^2 columns for chiral and achiral separations. In 2015, the Company introduced the Oasis® PRiME HLB cartridges, which process samples up to 40% faster and deliver samples that are up to 70% cleaner with fewer LC-MS matrix effects than samples prepared using other extraction techniques. In addition, the ACQUITY UPLC® Glycoprotein BEH Amide columns were introduced in 2015 to help biopharmaceutical companies to better understand where glycan groups (bonded sugars) are located within the therapeutic proteins they are developing and manufacturing.

The Company s chemistry consumable products also include environmental and nutritional safety testing products. Environmental laboratories use these products for quality control and proficiency testing and also purchase product support services required to help with their federal and state mandated accreditation requirements or with quality control over critical pharmaceutical analysis. For example, the Company provides tests to identify and quantify mycotoxins (fungal biological contaminants) in various agricultural commodities. These test kits provide reliable, quantitative detection of particular mycotoxins through the choice of fluorimetry, HPLC or LC-MS. In 2014, the Company introduced the Afla-V® AQUA test strips for detecting aflatoxins in grain and received USDA-GIPSA certification for its Afla-V® lateral flow strip tests for the quantitative analysis of total aflatoxins in corn.

Mass Spectrometry and Liquid Chromatography-Mass Spectrometry

MS is a powerful analytical technology that is used to identify unknown compounds, to quantify known materials and to elucidate the structural and chemical properties of molecules by measuring the masses of molecules that have been converted into ions.

The Company believes it is a technology and market leader in the development, manufacture, sale and distribution of MS instruments. These instruments are typically integrated and used along with other complementary analytical instruments and systems, such as LC, chemical electrophoresis, chemical electrophoresis chromatography and gas chromatography. A wide variety of instrumental designs fall within the overall category of MS instrumentation, including devices that incorporate quadrupole, ion trap, time-of-flight (Tof), magnetic sector and ion mobility technologies. Furthermore, these technologies are often used in tandem to maximize the speed and/or efficacy of certain experiments.

Table of Contents

Currently, the Company offers a wide range of MS instrument systems utilizing various combinations of quadrupole, Tof and ion mobility designs. These instrument systems are used in drug discovery and development, as well as for environmental, clinical and nutritional safety testing. The majority of mass spectrometers sold by the Company are designed to utilize an LC system and a liquid compatible interface (such as an electrospray ionization source) as the sample introduction device. These products supply a diverse market with a strong emphasis on the life science, pharmaceutical, biomedical, clinical, food and beverage and environmental market segments worldwide.

MS is an increasingly important detection technology for LC. The Company s smaller-sized mass spectrometers, such as the single quadrupole detector (SQD) and the tandem quadrupole detector (TQD), are often referred to as LC detectors and are typically sold as part of an LC system or as an LC system upgrade. Larger quadrupole systems, such as the Xevo® TQ and Xevo® TQ-S instruments, are used primarily for experiments performed for late-stage drug development, including clinical trial testing. Quadrupole time-of-flight (Q-Tof™) instruments, such as the Company s SYNAPT® G2-S, are often used to analyze the role of proteins in disease processes, an application sometimes referred to as proteomics . In 2013, the Company introduced the SYNAPT® G2-S*i*, which combines the unique power of travelling wave (T-Wave™) ion mobility separations with new data acquisition and informatics technologies, and collision cross-section measurements. In 2014, the Company introduced the ionKey/MS™ system, Xevo® G2-XS and Xevo® TQ-S micro. The ionKey/MS system physically integrates a UPLC separation into the mass spectrometer, producing a significant improvement in sensitivity with reduced solvent and sample sizes. The Xevo G2-XS mass spectrometer combines the new XS Collision Cell with the signature technologies of Tof-MRM, StepWave™ and QuanTof™. The Xevo TQ-S micro is a more compact, research-grade instrument designed to acquire sensitive, robust and dependable data at accelerated rates of acquisition. In 2015, the Company introduced the GlycoWorks™ *Rapi*Fluor-MS™ N-Glycan Kit, which enables fast de-glycosylation and labeling, reduces sample preparation time and allows mass detection for characterization and development with enhanced sensitivity. In addition, the Company introduced the Vion™ IMS Q-Tof Mass Spectrometer, which is a bench-top tandem mass spectrometer featuring ion mobility and Rapid Evaporative Ionization Mass Spectrometry (REIMS™) Research System with iKnife™ sampling to combine direct-from-sample ionization with high performance time-of-flight mass spectrometry.

In July 2014, the Company acquired the net assets of Medimass Research, Development and Service Kft. (Medimass), a developer of mass spectrometry-related technologies with the potential to be used for a variety of applications, for $23 million in cash. In addition, the Company potentially has to pay additional contingent consideration, which had an estimated fair value of $3 million as of the closing date. The net assets acquired consist primarily of the REIMS technology, including patent applications, software, databases and REIMS expertise. REIMS is an ambient pressure surface ionization technique that, when used with mass spectrometry, can characterize the molecular topography of complex surfaces, such as cellular membranes.

In November 2015, the Company acquired all of the outstanding stock of MPE Orbur Group Limited and its sole operating subsidiary, Midland Precision Equipment Company, Ltd. (MPE), a manufacturer of MS instrumentation components, for $12 million, net of cash acquired. MPE is a highly skilled manufacturer and former Waters supplier that produces critical components that support the Company s MS instrument systems.

LC and MS are typically embodied within an analytical system tailored for either a dedicated class of analyses or as a general purpose analytical device. An increasing percentage of the Company s customers are purchasing LC and MS components simultaneously and it has become common for LC and MS instrumentation to be used within the same laboratory and operated by the same user. The descriptions of LC and MS above reflect the historical segmentation of these analytical technologies and the historical categorization of their respective practitioners. Increasingly in today s instrument market, this segmentation and categorization is becoming obsolete as a high percentage of instruments used in the laboratory embody both LC and MS technologies as part of a single device. In response to this development and to further promote the high utilization of these hybrid instruments, the Company has organized its Waters Division to develop, manufacture, sell and service integrated LC-MS systems.

Based upon reports from independent marketing research firms and publicly-disclosed sales figures from competitors, the Company believes that it is one of the world s largest manufacturers and distributors of LC and LC-MS instrument systems, chromatography columns and other consumables and related services. The Company also believes that it has the leading combined LC and LC-MS market share in the United States, Europe and Asia (excluding Japan), and believes it may have a market share position in Japan that ranks second to an established domestic supplier.

The Company has been a developer and supplier of software-based products that interface with the Company s instruments, as well as other suppliers instruments. The Company s newest software platform, UNIFI®, is a scientific information system that is the culmination of a multi-year effort to substantially bring all of Waters preexisting, distinct software systems under one operating system. UNIFI joins Waters suite of informatics products Empower® Chromatography Data Software, MassLynx® Mass Spectrometry Software and NuGenesis® Scientific Data Management System, each of which is used to support innovations within world-leading institutions. UNIFI is the industry s first comprehensive software that seamlessly integrates UPLC chromatography, mass spectrometry and informatics data workflows. In 2014, the Company introduced three new UNIFI-based instrument systems and now offers a total of eight UNIFI-based solutions. In 2015, the Company s introduction of the Vion IMS Q-Tof Mass Spectrometer marks the first Waters mass spectrometer to be fully supported on UNIFI.

In August 2013, the Company acquired Nonlinear Dynamics Ltd. (Nonlinear Dynamics), a developer of proteomics and metabolomics software, for $23 million in cash. Waters and Nonlinear Dynamics collaborated on the development of the Company s TransOmics Informatics, a scalable solution for proteomics, metabolomics, and lipidomics analysis, which was introduced in 2012. In 2014, the Company introduced Progenesis® QI and Progenesis® QI for Proteomics.

Waters Division Service

Services provided by Waters enable customers to maximize technology productivity, support customer compliance activities and provide transparency into enterprise resource management efficiencies. The customer benefits from improved budget control, data-driven technology adoption and accelerated workflow at a site or on a global perspective. The Company considers its service offerings to be highly differentiated from our competition, as evidenced by a consistent increase in service revenues each year. Our principal competitors in the service market include PerkinElmer, Inc., Agilent Technologies, Inc., Thermo Fisher Scientific Inc. and General Electric Company. These competitors can provide services on Waters instruments to varying degrees and always present competitive risk.

The servicing and support of instruments, software and accessories is an important source of revenue and represents over 30% of sales for the Waters Division. These revenues are derived primarily through the sale of support plans, demand services, spare parts, customer training and performance validation services. Support plans typically involve scheduled instrument maintenance and an agreement to promptly repair a non-functioning instrument in return for a fee described in a contract that is priced according to the configuration of the instrument.

TA Division

Thermal Analysis, Rheometry and Calorimetry

Thermal analysis measures the physical characteristics of materials as a function of temperature. Changes in temperature affect several characteristics of materials, such as their physical state, weight, dimension and mechanical and electrical properties, which may be measured by one or more thermal analysis techniques, including calorimetry. Consequently, thermal analysis techniques are widely used in the development, production and characterization of materials in various industries, such as plastics, chemicals, automobiles, pharmaceuticals and electronics.

Table of Contents

Rheometry instruments complement thermal analyzers in characterizing materials. Rheometry characterizes the flow properties of materials and measures their viscosity, elasticity and deformation under different types of loading or other conditions. The information obtained under such conditions provides insight into a material s behavior during processing, packaging, transport, usage and storage.

Thermal analysis, rheometry and calorimetry instruments are heavily used in material testing laboratories and, in many cases, provide information useful in predicting the suitability and stability of fine chemicals, pharmaceuticals, water, polymers, metals and viscous liquids in various industrial, consumer goods and healthcare products, as well as for life science research. As with systems offered through the Waters Division, a range of instrument configurations is available with increasing levels of sample handling and information processing automation. In addition, systems and accompanying software packages can be tailored for specific applications. For example, the Q-Series™ family of differential scanning calorimeters has included a range of instruments, from basic dedicated analyzers to more expensive systems that can accommodate robotic sample handlers and a variety of sample cells and temperature control features for analyzing a broad range of materials. In 2011, TA introduced the Discovery DSC, Discovery TGA and Discovery Hybrid Rheometer, which provide leading measurement performance in the fields of differential scanning calorimetry and rheometry. In 2015, TA introduced the TAM IV and TAM IV-48, which extend the operating temperature range (4°C to 150°C) with long-term temperature stability for measuring processes. In 2015, TA also introduced the Affinity ITC and ITC Auto, which are designed for the most challenging life science laboratory environments that require high sensitivity, high productivity and the most advanced isothermal titration calorimetry.

In July 2013, the Company acquired Scarabaeus Mess-und Prodktionstechnik GmbH (Scarabaeus), a manufacturer of rheometers for the rubber and elastomer markets, for $4 million in cash. Key products developed by Scarabaeus include a Mooney Viscometer, Moving Die Rheometer (MDR), Rubber Process Analyzer (RPA) and automated density and hardness testers. The RPA includes many test features and analysis functions that are being used in the latest research and development efforts for rubber and related materials technology.

In December 2013, the Company acquired Expert Systems Solutions S.r.l. (ESS), a manufacturer of advanced thermal analysis instruments, for $3 million in cash. ESS manufactures a variety of heating microscopes, optical dilatometers and optical fleximeters, with a particular focus on the ceramics industry.

In December 2013, the Company acquired the net assets of LaserComp Inc. (LaserComp), a manufacturer of thermal conductivity measurement instruments, for $12 million in cash. LaserComp s FOX line of durable thermal conductivity test instruments is used by many of the world s leading thermal insulation manufacturers.

In January 2014, the Company acquired ULSP B.V. (ULSP), a manufacturer of instrumentation components that enable ultra low temperature generation, for $4 million in cash. ULSP s core business is the manufacturing and servicing of high quality low temperature coolers for thermal analysis and rheology applications, and these products are important accessories for many TA core instrument offerings. In 2014, TA introduced the new Air Chiller System, ACS-3, which is equipped with a three-stage cascading compressor design, enabling testing to temperatures as low as -100°C, a capability that the Company believes competing systems do not possess.

In May 2015, the Company acquired the net assets of the ElectroForce® business of the Bose Corporation (ElectroForce), a manufacturer of testing systems, for $9 million in cash. ElectroForce s core business is the manufacturing of dynamic mechanical testing systems used to characterize medical devices, biologic and engineered materials. The ElectroForce test instruments are based on unique motor designs that are quiet, energy-efficient, scalable and deliver precise performance over a wide range of force and frequency.

TA Division Service

Similar to the Waters Division, the servicing and support of TA s instruments is an important source of revenue and represents more than 25% of sales for the TA Division. TA sells, supports and services TA s product

Table of Contents

offerings through its headquarters in New Castle, Delaware. TA operates independently from the Waters Division, though many of its overseas offices are situated in Waters Division s facilities to achieve operational efficiencies. TA has dedicated field sales and service operations. Service sales are primarily derived from the sale of support plans, replacement parts and billed labor fees associated with the repair, maintenance and upgrade of installed systems.

Customers

The Company typically has a broad and diversified customer base that includes pharmaceutical accounts, other industrial accounts, universities and governmental agencies. Purchase of the Company s instrument systems is often dependent on its customers capital spending, or funding as in the cases of governmental, academic and research institutions, which often fluctuate from year to year. The pharmaceutical segment represents the Company s largest sector and includes multinational pharmaceutical companies, generic drug manufacturers, contract research organizations (CROs) and biotechnology companies. The Company s other industrial customers include chemical manufacturers, polymer manufacturers, food and beverage companies and environmental testing laboratories. The Company also sells to universities and governmental agencies worldwide. The Company s technical sales and support staff members work closely with its customers in developing and implementing applications that meet their full range of analytical requirements. During 2015, 54% of the Company s sales were to pharmaceutical accounts, 32% to other industrial accounts and 14% to governmental agencies and academic institutions.

The Company typically experiences an increase in sales in the fourth quarter, as a result of purchasing habits for capital goods of many customers who tend to exhaust their spending budgets by calendar year end. The Company does not rely on any single customer for a material portion of its sales. During fiscal years 2015, 2014 and 2013, no single customer accounted for more than 2% of the Company s net sales.

Sales and Service

The Company has one of the largest direct sales and service organizations focused exclusively on the technologies offered by the Company. Across these product technologies, using respective specialized sales and service workforces, the Company serves its customer base with 94 sales offices throughout the world as of December 31, 2015 and approximately 3,400, 3,100 and 3,000 field representatives in 2015, 2014 and 2013, respectively. This investment in sales and service personnel serves to maintain and expand the Company s installed base of instruments. The Company s sales representatives have direct responsibility for account relationships, while service representatives work in the field to install instruments, train customers and minimize instrument downtime. In-house and field-based technical support representatives work directly with customers, providing them assistance with applications and procedures on Company products. The Company provides customers with comprehensive information through various corporate and regional internet websites and product literature, and also makes consumable products available through electronic ordering facilities and a dedicated catalog.

Manufacturing and Distribution

The Company provides high product quality by overseeing each stage of the production of its instruments, columns and chemical reagents.

The Company currently assembles a portion of its LC instruments at its facility in Milford, Massachusetts, where it performs machining, assembly and testing. The Milford facility maintains quality management and environmental management systems in accordance with the requirements of ISO 9001:2008, ISO 13485:2003 and ISO 14001:2004, and adheres to applicable regulatory requirements (including the FDA Quality System Regulation and the European In-Vitro Diagnostic Directive). The Company outsources manufacturing of certain electronic components, such as computers, monitors and circuit boards, to outside vendors that meet the

Company s quality requirements. In addition, the Company outsources the manufacturing of certain LC instrument systems and components to well-established contract manufacturing firms in Singapore. The Company s Singapore entity manages all Asian outsourced manufacturing as well as the distribution of all products from Asia. The Company continues to pursue outsourcing opportunities as they may arise but believes it maintains adequate supply chain and manufacturing capabilities in the event of disruption or natural disasters.

The Company manufactures certain SFC/SFE products in its facility in Pittsburgh, Pennsylvania. The Pittsburgh facility is aligned with the policies and procedures for product manufacturing and distribution as adhered to in the Milford, Massachusetts facility and is under the same structural leadership organization.

The Company primarily manufactures and distributes its LC columns at its facilities in Taunton, Massachusetts and Wexford, Ireland, where it processes, sizes and treats silica and polymeric media that are packed into columns, solid phase extraction cartridges and bulk shipping containers. The Wexford facility also manufactures and distributes certain data, instruments and software components for the Company s LC, MS and TA product lines. The Company s Taunton facility is certified to ISO 9001:2008. The Wexford facility is certified to ISO 9001:2008 and ISO 13485:2003. VICAM® manufactures antibody resin and magnetic beads that are packed into columns and kits in Milford, Massachusetts and Nixa, Missouri. Environmental Resource Associates manufactures environmental proficiency kits in Golden, Colorado.

The Company manufactures and distributes its MS products at its facilities in Wilmslow, England and Wexford, Ireland. Certain components or modules of the Company s MS instruments are manufactured at its facility in Solihull, England and by long-standing outside contractors. Each stage of this supply chain is closely monitored by the Company to maintain high quality and performance standards. The instruments, components or modules are then returned to the Company s facilities, where its engineers perform final assembly, calibrations to customer specifications and quality control procedures. The Company s MS facilities are certified to ISO 9001:2008 and ISO 13485:2003.

TA s thermal analysis, rheometry and calorimetry products are manufactured and distributed at the Company s New Castle, Delaware, Wakefield, Massachusetts, Eden Prairie, Minnesota, Lindon, Utah, Huellhorst, Germany, Wetzlar, Germany, Modena, Italy and Ede, Netherlands facilities. Similar to MS, elements of TA s products are manufactured by outside contractors and are then returned to the Company s facilities for final assembly, calibration and quality control. The Company s New Castle facility is certified to ISO 9001:2008 standards.

Raw Materials

The Company purchases a variety of raw materials, primarily consisting of high temperature alloy sheet metal and castings, forgings, pre-plated metals and electrical components from various vendors. The materials used by the Company s operations are generally available from a number of sources and in sufficient quantities to meet current requirements subject to normal lead times. The Company is subject to rules of the Securities and Exchange Commission (SEC) under the Dodd-Frank Wall Street Reform and Consumer Protection Act, requiring disclosure as to whether certain materials (tantalum, tin, gold and tungsten), known as conflict minerals, which may be contained in the Company s products, are mined from the Democratic Republic of the Congo and adjoining countries. In 2014, the Company was not able to determine with certainty the country of origin of some of the conflict minerals in its manufactured products. However, the Company does not have knowledge that any of its conflict minerals originated from the Democratic Republic of the Congo or adjoining countries. The Company is in the process of evaluating its 2015 supply chain, and the Company plans to file its 2015 Form SD with the SEC in May 2016. The results of this and future evaluations may impose additional costs and may introduce new risks related to the Company s ability to verify the origin of any conflict minerals contained in its products.

Table of Contents

Research and Development

The Company maintains an active research and development program focused on the development and commercialization of products that extend, complement and update its existing product offering. The Company s research and development expenditures for 2015, 2014 and 2013 were $119 million, $108 million and $101 million, respectively. In addition, in 2015 and 2014, the Company incurred charges of $4 million and $15 million, respectively, for acquired in-process research and development related to the licensing of certain intellectual property relating to mass spectrometry technologies yet to be commercialized and for which there was no future alternative use as of the acquisition date. These licensing arrangements are significantly related to new, biologically-focused applications, as well as other applications, and require the Company to make additional future payments of up to $12 million if certain milestones are achieved, as well as royalties on future net sales.

Nearly all of the Company s LC products have been developed at the Company s main research and development center located in Milford, Massachusetts, with input and feedback from the Company s extensive field organizations and customers. The majority of the Company s MS products are developed at facilities in England and most of the Company s current materials characterization products are developed at the Company s research and development center in New Castle, Delaware. At December 31, 2015, 2014 and 2013, there were 955, 875 and 824 employees, respectively, involved in the Company s research and development efforts. The Company has increased research and development expenses from its continued commitment to invest significantly in new product development and existing product enhancements, and as a result of acquisitions. Despite the Company s active research and development programs, there can be no assurance that the Company s product development and commercialization efforts will be successful or that the products developed by the Company will be accepted by the marketplace.

Employees

The Company employed approximately 6,600, 6,200 and 6,000 employees at December 31, 2015, 2014 and 2013, respectively, with approximately 42% of the Company s employees located in the United States. The Company believes its employee relations are generally good. The Company s employees are not unionized or affiliated with any internal or external labor organizations. The Company firmly believes that its future success largely depends upon its continued ability to attract and retain highly skilled employees.

Competition

The analytical instrument systems, supplies and services market is highly competitive. The Company encounters competition from several worldwide suppliers and other companies in both domestic and foreign markets for each of its three primary technologies. The Company competes in its markets primarily on the basis of product performance, reliability, service and, to a lesser extent, price. Competitors continuously introduce new products and have instrument businesses that are generally more diversified than the Company s business. Some competitors have greater financial resources and broader distribution than the Company s.

In the markets served by the Waters Division, the Company s principal competitors include: Agilent Technologies, Inc., Shimadzu Corporation, Bruker Corporation, Danaher Corporation and Thermo Fisher Scientific Inc. In the markets served by the TA Division, the Company s principal competitors include: PerkinElmer, Inc., Mettler-Toledo International Inc., NETZSCH-Geraetebau GmbH, Thermo Fisher Scientific Inc., Malvern Instruments Ltd. and Anton-Paar GmbH.

The market for consumable LC products, including separation columns, is highly competitive and generally more fragmented than the analytical instruments market. The Company encounters competition in the consumable columns market from chemical companies that produce column sorbents and small specialized companies that primarily pack purchased sorbents into columns and subsequently package and distribute columns. The Company believes that it is one of the few suppliers that processes silica, packs columns and distributes its own products. The Company competes in this market on the basis of performance, reproducibility, reputation and, to a lesser extent, price. In recent years, the Company s principal competitors for consumable products have included: Phenomenex, Inc., Sigma-Aldrich Corporation, Agilent Technologies, Inc., General Electric Company, Thermo Fisher Scientific Inc. and Merck and Co., Inc. The ACQUITY UPLC instrument is designed to offer a predictable level of performance when used with ACQUITY UPLC columns and the Company believes that the expansion of the ACQUITY UPLC instrument base will enhance its chromatographic column business because of the high level of synergy between ACQUITY UPLC columns and the ACQUITY UPLC instruments.

Patents, Trademarks and Licenses

The Company owns a number of United States and foreign patents and has patent applications pending in the United States and abroad. Certain technology and software has been acquired or is licensed from third parties. The Company also owns a number of trademarks. The Company s patents, trademarks and licenses are viewed as valuable assets to its operations. However, the Company believes that no one patent or group of patents, trademark or license is, in and of itself, essential to the Company such that its loss would materially affect the Company s business as a whole.

Environmental Matters and Climate Change

The Company is subject to federal, state and local laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water as well as handling and disposal practices for solid and hazardous wastes, and (ii) impose liability for the costs of cleaning up and certain damages resulting from sites of past spills, disposals or other releases of hazardous substances. The Company believes that it currently conducts its operations and has operated its business in the past in substantial compliance with applicable environmental laws. From time to time, Company operations have resulted or may result in noncompliance with environmental laws or liability for cleanup pursuant to environmental laws. The Company does not currently anticipate any material adverse effect on its operations, financial condition or competitive position as a result of its efforts to comply with environmental laws. In late 2015, the Company received notification from the EPA informing the Company of an assessment of a $0.4 million fine for EPA violations at its Taunton, Massachusetts facility. The Company has appealed the fine and is currently working with the EPA to implement a remediation plan to correct the underlying issues. The Company believes that the fine and future capital expenditures needed to remediate the issues, which are currently estimated to be less than $2 million, are not material to the Company.

The Company is sensitive to the growing global debate with respect to climate change. An internal sustainability working group develops increasingly robust data with respect to the Company s utilization of carbon producing substances in an effort to continuously reduce the Company s carbon footprint. In 2012, the Company published a sustainability report identifying the various actions and behaviors the Company has adopted concerning its commitment to both the environment and the broader topic of social responsibility. See Item 1A, Risk Factors *The effects of climate change could harm the Company s business*, for more information on the potential significance of climate change legislation. See also Note 15 in the Notes to the Consolidated Financial Statements for financial information about geographic areas.

Available Information

The Company files or furnishes all required reports with the SEC. The public may read and copy any materials the Company files or furnishes with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Table of Contents

The Company is an electronic filer and the SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of the SEC electronic filing website is http://www.sec.gov. The Company also makes available, free of charge on its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The website address for Waters Corporation is http://www.waters.com and SEC filings can be found under the caption Investors .

Forward-Looking Statements

Certain of the statements in this Form 10-K and the documents incorporated 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 II, Item 7 of this Form 10-K. 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 , wou suggests , 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.

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 FDA and EPA, 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 in 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 further described below in Item 1A, Risk Factors, of this Form 10-K. 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 annual report on Form 10-K 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 1A: ***Risk Factors***

The Company is subject to risks common to companies in the analytical instrument industry, including, but not limited to, the following:

The Company s international operations may be negatively affected by foreign political events, wars or terrorism and regulatory changes, related to either a specific country or a larger region. These potential political, currency and economic disruptions, as well as foreign currency exchange rate fluctuations, could have a material adverse effect on the Company s results of operations or financial condition.

Approximately 68% and 70% of the Company s net sales in 2015 and 2014, respectively, were outside of the United States and were primarily denominated in foreign currencies. In addition, the Company has considerable manufacturing operations in Ireland and the United Kingdom, as well as significant subcontractors located in Singapore. As a result, a significant portion of the Company s sales and operations are subject to certain risks, including adverse developments in the foreign political, regulatory and economic environment, in particular, the financial difficulties and debt burden experienced by a number of European countries; the instability and potential impact of war or terrorism; the instability and possible dissolution of the Euro as a single currency; sudden movements in a country s foreign exchange rates due to a change in a country s sovereign risk profile or foreign exchange regulatory practices; tariffs and other trade barriers; difficulties in staffing and managing foreign operations; and associated adverse operational, contractual and tax consequences.

Additionally, the U.S. dollar value of the Company s net sales, cost of sales, operating expenses, interest, taxes and net income varies with foreign currency exchange rate fluctuations. Significant increases or decreases in the value of the U.S. dollar relative to certain foreign currencies, particularly the Euro, Japanese yen and British pound, could have a material adverse effect or benefit on the Company s results of operations or financial condition. In 2015, the U.S. dollar strengthened against most of the major currencies throughout the world and significantly affected the Company s financial performance. The continuing strength of the U.S. dollar could continue to have a significant negative impact on the Company s financial performance in the near future.

Table of Contents

Global economic conditions may decrease demand for the Company s products and harm the Company s financial results.

The Company is a global business that may be adversely affected by changes in global economic conditions. These changes in global economic conditions may affect the demand for the Company s products and services and may result in a decline in sales in the future. There can be no assurance regarding demand for the Company s products and services in the future.

The Company s financial results are subject to changes in customer demand, which may decrease for a number of reasons, many beyond the Company s control.

The demand for the Company s products is dependent upon the size of the markets for its LC, LC-MS, thermal analysis, rheometry and calorimetry products; the timing and level of capital spending and expenditures of the Company s customers; changes in governmental regulations, particularly affecting drug, food and drinking water testing; funding available to governmental, academic and research institutions; general economic conditions and the rate of economic growth in the Company s major markets; and competitive considerations. The Company typically experiences an increase in sales in its fourth quarter as a result of purchasing habits for capital goods by customers that tend to exhaust their spending budgets by calendar year end. There can be no assurance that the Company s results of operations or financial condition will not be adversely impacted by a change in any of the factors listed above or the continuation of uncertain global economic conditions.

Additionally, the analytical instrument market may, from time to time, experience low sales growth. Approximately 54% and 53% of the Company s net sales in 2015 and 2014, respectively, were to the worldwide pharmaceutical and biotechnology industries, which may be periodically subject to unfavorable market conditions and consolidations. Unfavorable industry conditions could have a material adverse effect on the Company s results of operations or financial condition.

Disruption in worldwide financial markets could adversely impact the Company s access to capital and financial condition.

Financial markets in the U.S., Europe and Asia have experienced times of extreme disruption in recent years, including, among other things, sharp increases in the cost of new capital, credit rating downgrades and bailouts, severely diminished capital availability and severely reduced liquidity in money markets. Financial and banking institutions have also experienced disruptions, resulting in large asset write-downs, higher costs of capital, rating downgrades and reduced desire to lend money. There can be no assurance that there will not be future deterioration or prolonged disruption in financial markets or financial institutions. Any future deterioration or prolonged disruption in financial markets or financial institutions in which the Company participates may impair the Company s ability to access its existing cash, utilize its existing syndicated bank credit facility funded by such financial institutions, and impair its ability to access sources of new capital. The Company s cost of any new capital raised and interest expense would increase if this were to occur.

Competitors may introduce more effective or less expensive products than the Company s, which could result in decreased sales. The competitive landscape may transform as a result of potential changes in ownership, mergers and continued consolidations among the Company s competitors, which could harm the Company s business.

The analytical instrument market and, in particular, the portion related to the Company s HPLC, UPLC, LC-MS, thermal analysis, rheometry and calorimetry product lines, is highly competitive and subject to rapid changes in technology. The Company encounters competition from several international instrument suppliers and other companies in both domestic and foreign markets. Some competitors have instrument businesses that are generally more diversified than the Company s business, but are typically less focused on the Company s chosen markets. Over the years, some competitors have merged with other competitors for various reasons, some of which include increasing product line offerings, improving market share and reducing costs. There can be no assurance that the Company s competitors will not introduce more effective and less costly products than those of the Company or that the Company will be able to increase its sales and profitability from new product introductions. There can be no assurance that the Company s sales and marketing forces will compete successfully against the Company s competitors in the future.

The costs of developing new technologies and bringing these new technologies to market could negatively impact the Company s financial results.

The Company is in the process of developing new products with recently acquired technologies. The future development of these new products will require a significant amount of spending over the next few years before significant, robust sales will be realized. These new products will be sold into both the clinical and non-clinical markets, and any new products requiring FDA clearance may take longer to bring to market. There can be no assurance given as to the timing of these new product launches and the ultimate realization of sales and profitability in the future.

The Company s financial condition and results of operations could be adversely affected if the Company is unable to maintain a sufficient level of cash flow in the U.S.

The Company had $1,668 million in debt and $2,399 million in cash, cash equivalents and investments as of December 31, 2015. As of December 31, 2015, the Company also had the ability to borrow an additional $428 million from its existing, committed credit facility. All but a small portion of the Company s debt is in the U.S. There is a substantial cash requirement in the U.S. to fund operations and capital expenditures, service debt interest obligations, finance potential U.S. acquisitions and continue authorized stock repurchase programs in the U.S. A majority of the Company s cash is generated from foreign operations, with $2,346 million of the Company s cash held by foreign subsidiaries, and may be subject to material tax effects on distribution to U.S. legal entities. The Company s financial condition and results of operations could be adversely impacted if the Company is unable to maintain a sufficient level of cash flow in the U.S. to address these requirements through (1) cash from U.S. operations, (2) efficient, cost-effective and timely distribution of cash from non-U.S. subsidiaries, (3) the Company s ability to access its existing cash and revolving credit facility, (4) the ability to expand the Company s borrowing capacity and (5) other sources of capital obtained at an acceptable cost.

Debt covenants, and the Company s failure to comply with them, could negatively impact the Company s capital and financial results.

The Company s debt is subject to restrictive debt covenants that limit the Company s ability to engage in certain activities that could otherwise benefit the Company. These debt covenants include restrictions on the Company s ability to enter into certain contracts or agreements that may limit the Company s ability to make dividend or other payments, secure other indebtedness, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of the Company s assets. The Company is also required to meet specified financial ratios under the terms of the Company s debt agreements. The Company s ability to comply with these financial restrictions and all other covenants is dependent on the Company s future performance, which is subject to, but not limited to, prevailing economic conditions and other factors, including factors that are beyond the Company s control, such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition.

Disruption of operations at the Company s manufacturing facilities could harm the Company s financial condition.

The Company manufactures LC instruments at facilities in Milford, Massachusetts and through a subcontractor in Singapore; chemistry separation columns at its facilities in Taunton, Massachusetts and Wexford, Ireland; MS products at its facilities in Wilmslow, England, Solihull, England and Wexford, Ireland; thermal analysis and rheometry products at its facilities in New Castle, Delaware and other instruments and consumables at various other locations as a result of the Company s acquisitions. Any prolonged disruption to the operations at any of these facilities, whether due to labor difficulties, destruction of or damage to any facility or other reasons, could have a material adverse effect on the Company s results of operations or financial condition.

The loss of key members of management and the risks inherent in succession planning could adversely affect the Company s results of operations or financial condition.

The operation of the Company requires managerial and operational expertise. None of the Company s key management employees, with the exception of the President and Chief Executive Officer, have an employment contract with the Company and there can be no assurance that such individuals will remain with the Company. If, for any reason, other such key personnel do not continue to be active in management, the Company s results of operations or financial condition could be adversely affected.

Failure to adequately protect intellectual property could have materially adverse effects on the Company s results of operations or financial condition.

The Company vigorously protects its intellectual property rights and seeks patent coverage on all developments that it regards as material and patentable. However, there can be no assurance that any patents held by the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. Conversely, there could be successful claims against the Company by third-party patent holders with respect to certain Company products that may infringe the intellectual property rights of such third parties. The Company s patents, including those licensed from others, expire on various dates. If the Company is unable to protect its intellectual property rights, it could have an adverse and material effect on the Company s results of operations or financial condition.

The Company s business would suffer if the Company were unable to acquire adequate sources of supply.

Most of the raw materials, components and supplies purchased by the Company are available from a number of different suppliers; however, a number of items are purchased from limited or single sources of supply and disruption of these sources could have, at a minimum, a temporary adverse effect on shipments and the financial results of the Company. A prolonged inability to obtain certain materials or components could have an adverse effect on the Company s financial condition or results of operations and could result in damage to its relationships with its customers and, accordingly, adversely affect the Company s business.

The Company s sales would deteriorate if the Company s outside contractors fail to provide necessary components or modules.

Certain components or modules of the Company s LC and MS instruments are manufactured by outside contractors, including the manufacturing of LC instrument systems and related components by contract manufacturing firms in Singapore. Disruptions of service by these outside contractors could have an adverse effect on the supply chain and the financial results of the Company. A prolonged inability to obtain these components or modules could have an adverse effect on the Company s financial condition or results of operations.

The Company s financial results are subject to unexpected shifts in pre-tax income between tax jurisdictions and changing application of tax law.

The Company is subject to rates of income tax that range from 0% to in excess of 35% in various jurisdictions in which it conducts business. In addition, the Company typically generates a substantial portion of its income in the fourth quarter of each fiscal year. Geographical shifts in income from previous quarters projections caused by factors including, but not limited to, changes in volume and product mix and fluctuations in foreign currency translation rates, could therefore have potentially significant favorable or unfavorable effects on the Company s income tax expense, effective tax rate and results of operations. In addition, governments in the jurisdictions in which the Company operates implement changes to tax laws and regulations from time to time. Any changes in corporate income tax rates or regulations regarding transfer pricing or repatriation of dividends or capital, as well as changes in the interpretation of existing tax laws and regulations, in the jurisdictions in which the Company operates could adversely affect the Company s cash flow and lead to increases in its overall tax burden, which would negatively affect the Company s profitability.

Disruption, cyber attack or unforeseen problems with the security, maintenance or upgrade of the Company s information and web-based systems could have an adverse effect on the Company s operations and financial condition.

The Company relies on its technology infrastructure and that of its software and banking partners, among other functions, to interact with suppliers, sell products and services, fulfill contract obligations, ship products, collect and make electronic wire and check based payments and otherwise conduct business. The Company s technology infrastructure may be vulnerable to damage or interruption from, but not limited to, natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses, unauthorized access to customer or employee data, unauthorized access to and funds transfers from Company bank accounts and other attempts to harm the Company s systems. Any prolonged disruption to the Company s technology infrastructure, at any of its facilities, could have a material adverse effect on the Company s results of operations or financial condition.

Compliance failures could harm the Company s business.

The Company is subject to regulation by various federal, state and foreign governments and agencies in areas including, among others, health and safety, import/export, the Foreign Corrupt Practices Act and environmental laws and regulations. A portion of the Company s operations are subject to regulation by the FDA and similar foreign regulatory agencies. These regulations are complex and govern an array of product activities, including design, development, labeling, manufacturing, promotion, sales and distribution. Any failure by the Company to comply with applicable governmental regulations could result in product recalls, the imposition of fines, restrictions on the Company s ability to conduct or expand its operations or the cessation of all or a portion of its operations.

Some of the Company s operations are subject to domestic and international laws and regulations with respect to the manufacturing, handling, use or sale of toxic or hazardous substances. This requires the Company to devote substantial resources to maintain compliance with those applicable laws and regulations. If the Company fails to comply with such requirements in the manufacturing or distribution of its products, it could face civil and/or criminal penalties and potentially be prohibited from distributing or selling such products until they are compliant.

Some of the Company s products are also subject to the rules of certain industrial standards bodies, such as the International Standards Organization. The Company must comply with these rules, as well as those of other agencies, such as the United States Occupational Safety and Health Administration. Failure to comply with such rules could result in the loss of certification and/or the imposition of fines and penalties, which could have a material adverse effect on the Company s operations.

The Company is subject to the rules of the SEC under the Dodd-Frank Wall Street Reform and Consumer Protection Act, requiring disclosure as to whether certain materials (tantalum, tin, gold and tungsten), known as conflict minerals, which may be contained in the Company s products, are mined from the Democratic Republic of the Congo and adjoining countries. In 2014, the Company was not able to determine with certainty the country of origin of some of the conflict minerals in its manufactured products. However, the Company does not have knowledge that any of its conflict minerals originated from the Democratic Republic of the Congo or adjoining countries. The Company is in the process of evaluating its 2015 supply chain, and the Company plans to file its 2015 Form SD with the SEC in May 2016. The results of this and future evaluations may impose additional costs and may introduce new risks related to the Company s ability to verify the origin of any conflict minerals contained in its products.

The effects of climate change could harm the Company s business.

The Company s manufacturing processes for certain of its products involve the use of chemicals and other substances that are regulated under various international, federal, state and local laws governing the environment. In the event that any future climate change legislation would require that stricter standards be imposed by domestic or international environmental regulatory authorities with respect to the use and/or levels of possible

Table of Contents

emissions from such chemicals and/or other substances, the Company may be required to make certain changes and adaptations to its manufacturing processes. Any such changes could have a material adverse effect on the financial results of the Company.

Another potential effect of climate change is an increase in the severity of global weather conditions. The Company s manufacturing facilities are located in the United States, United Kingdom and Ireland. In addition, the Company manufactures a growing percentage of its HPLC, UPLC and MS products in both Singapore and Ireland. Severe weather conditions, including earthquakes, hurricanes and/or tsunamis, could potentially cause significant damage to the Company s manufacturing facilities in each of these countries. The effects of such damage and the resulting disruption of manufacturing operations could have a material adverse impact on the financial results of the Company.

Item 1B: ***Unresolved Staff Comments***

None.

Item 2: ***Properties***

Waters operates 21 United States facilities and 80 international facilities, including field offices. In early 2014, the Company completed the construction of its new facility in Wilmslow, England, which consolidates MS research, manufacturing and distribution. The Company believes that this new building and its other existing facilities are suitable and adequate for its current production level and for reasonable growth over the next several years. The Company s primary facilities are summarized in the table below.

Primary Facility Locations

Location	Function (1)	Owned/Leased
Golden, CO	M, R, S, D, A	Leased
New Castle, DE	M, R, S, D, A	Owned
Milford, MA	M, R, S, D, A	Owned
Taunton, MA	M, R	Owned
Wakefield, MA	M, R, S, D, A	Leased
Eden Prairie, MN	M, R, S, D, A	Leased
Nixa, MO	M, S, D, A	Leased
Pittsburgh, PA	M, R, S, D, A	Leased
Lindon, UT	M, R, S, D, A	Leased
New Castle, England	R, S, D, A	Leased
Solihull, England	M	Owned
Wilmslow, England	M, R, S, D, A	Owned
St. Quentin, France	S, A	Leased
Huellhorst, Germany	M, R, S, D, A	Owned
Wetzlar, Germany	R, S, D, A	Leased
Budapest, Hungary	R	Leased
Wexford, Ireland	M, R, D, A	Owned
Modena, Italy	M, R, S, D, A	Leased
Ede, Netherlands	M, R, S, D, A	Leased
Etten-Leur, Netherlands	S, D, A	Owned
Brasov, Romania	R, A	Leased
Singapore	R, S, D, A	Leased

(1) M = Manufacturing; R = Research; S = Sales and Service; D = Distribution; A = Administration

Table of Contents

The Company operates and maintains 11 field offices in the United States and 66 field offices abroad in addition to sales offices in the primary facilities listed above. The Company s field office locations are listed below.

Field Office Locations (2)

United States	International			
Irvine, CA	Australia	India	Portugal
Pleasanton, CA	Austria	Ireland	Poland
Wood Dale, IL	Belgium	Israel	Puerto Rico
Columbia, MD	Brazil	Italy	Spain
Beverly, MA	Canada	Japan	Sweden
Ann Arbor, MI	Czech Republic	Korea	Switzerland
Durham, NC	Denmark	Malaysia	Taiwan
Morrisville, NC	Finland	Mexico	United Kingdom
Parsippany, NJ	France	Netherlands	
Plymouth Meeting, PA	Germany	Norway	
Bellaire, TX	Hungary	People s Republic of China	

(2) The Company operates more than one field office within certain states and foreign countries.

Item 3: ***Legal Proceedings***

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 it has meritorious arguments in its current litigation matters and believes any outcome, either individually or in the aggregate, will not be material to the Company s financial position or results of operations. In 2015, the Company recorded $4 million of litigation settlement provisions and related costs associated with multiple litigation matters.

In late 2015, the Company received notification from the EPA informing the Company of an assessment of a $0.4 million fine for EPA violations at its Taunton, Massachusetts facility. The Company has appealed the fine and is currently working with the EPA to implement a remediation plan to correct the underlying issues. The Company believes that the fine and the future capital expenditures needed to remediate the issues, which are currently estimated to be less than $2 million, are not material to the Company.

Item 4: ***Mine Safety Disclosures***

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Officers of the Company are elected annually by the Board of Directors and hold office at the discretion of the Board of Directors. The following persons serve as executive officers of the Company:

Christopher J. O Connell, 49, has served as a Director of the Company since September 2015, when he assumed the position of President and Chief Executive Officer of the Company. Mr. O Connell served as Executive Vice President and President of Restorative Therapies Group of Medtronic plc from August 2009 to August 2015. From 1994 to August 2009, Mr. O Connell served in the following positions at Medtronic plc: Senior Vice President and President of Medtronic Diabetes, President of Medtronic Physio-Control, Vice President of Sales and Marketing for the Cardiac Rhythm Management business, Vice President/General Manager of the Patient Management Business, Vice President of Corporate Strategy, Director of Investor Relations and Corporate Development Associate.

Mark T. Beaudouin, 61, was appointed Senior Vice President, General Counsel and Secretary in February 2016 and was Vice President, General Counsel and Secretary of the Company since April 2003. Prior to joining Waters, he served as Senior Vice President, General Counsel and Secretary of PAREXEL International Corporation, a bio/pharmaceutical services company, from January 2000 to April 2003. Previously, from May 1985 to January 2000, Mr. Beaudouin served in several senior legal management positions, including Vice President, General Counsel and Secretary of BC International, Inc., a development stage biotechnology company, First Senior Vice President, General Counsel and Secretary of J. Baker, Inc., a diversified retail company, and General Counsel and Secretary of GenRad, Inc., a high technology test equipment manufacturer.

Eugene G. Cassis, 59, was appointed Senior Vice President and Chief Financial Officer in February 2016 and was Chief Financial Officer since February 2014. Previously, he served as Corporate Vice President of Worldwide Business Development and Investor Relations. Mr. Cassis joined the Company in 1980 and has held several senior positions with Waters, including President of Nihon Waters K.K., Tokyo, Japan and Liquid Chromatography Mass Spectrometry (LC-MS) Business Unit Manager.

Dr. Michael C. Harrington, 55, was appointed Senior Vice President, Global Markets in February 2016. Dr. Harrington joined Waters in 1987 and has held several senior positions with Waters, including Vice President, Europe and Asia Pacific Operations, Senior Director of US Sales Operations, Director of US Chemistry Sales and General Manager of Phase Separations. Prior to joining Waters, Dr. Harrington held senior sales positions at Celsis, Inc.

Terrance P. Kelly, 53, was appointed Senior Vice President and President, TA Instruments in February 2016. Mr. Kelly has served as President, TA instruments since February 2005. Mr. Kelly started his career in finance and accounting at ICI in 1985. He joined DuPont in 1988. He held various sales and marketing positions with DuPont, and later TA Instruments. Mr. Kelly joined Waters in 1996, when TA Instruments was acquired.

Dr. Rohit Khanna, 58, was appointed Senior Vice President, Applied Technology in February 2016. Dr. Khanna previously served as Vice President, Worldwide Marketing and Informatics since 2002 and also held several senior positions with Waters, including Vice-President, Customer Assurance and Vice President, Data Products. Dr. Khanna joined Waters in 1986 when Dynamic Solutions, a company co-founded and managed by Dr. Khanna, was acquired.

Ian S. King, 59, was appointed Senior Vice President, Instrument Technology in February 2016. Mr. King joined Waters in 1982 and previously served as Vice President, Separations Technologies and Vice President and General Manger of Consumable Division, as well as a variety of scientific and management positions in Waters international subsidiaries. Prior to joining Waters, Mr. King worked at Edinburgh University as a research scientist.

Elizabeth B. Rae, 58, was appointed Senior Vice President, Global Human Resources in February 2016 and was Vice President of Human Resources since October 2005 and Vice President of Worldwide Compensation and Benefits since January 2002. Ms. Rae joined Waters in January 1996 as Director of Worldwide Compensation. Prior to joining Waters, she held senior human resources positions in retail, healthcare and financial services companies.

David A. Terricciano, 60, was appointed Senior Vice President, Global Operations in February 2016. Mr. Terricciano previously served as Vice President of Global Operations since August 2001. Prior to joining Waters, he worked as Vice President and General Manager of Operations for Perkin-Elmer Instruments. Previously, he held a variety of executive positions at Goodrich Aerospace, Honeywell Aerospace and Textron Corporation.

Table of Contents

PART II

Item 5: ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company s common stock is registered under the Exchange Act, and is listed on the New York Stock Exchange under the symbol WAT. As of February 19, 2016, the Company had 104 common stockholders of record. The Company has not declared or paid any dividends on its common stock in its past three fiscal years and does not plan to pay dividends in the immediate future. The Company has not made any sales of unregistered equity securities in the years ended December 31, 2015, 2014 or 2013.

Securities Authorized for Issuance under Equity Compensation Plans

Equity compensation plan information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this document and should be considered an integral part of this Item 5.

Stock Price Performance Graph

The following performance graph and related information shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph compares the cumulative total return on $100 invested as of December 31, 2010 (the last day of public trading of the Company s common stock in fiscal year 2010) through December 31, 2015 (the last day of public trading of the common stock in fiscal year 2015) in the Company s common stock, the NYSE Market Index and the SIC Code 3826 Index. The return of the indices is calculated assuming reinvestment of dividends during the period presented. The Company has not paid any dividends since its IPO. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN SINCE DECEMBER 31, 2010

AMONG WATERS CORPORATION, NYSE MARKET INDEX AND SIC CODE 3826 INDEX LABORATORY ANALYTICAL INSTRUMENTS

	2010	2011	2012	2013	2014	2015
WATERS CORPORATION	$ 100.00	$ 95.29	$ 112.11	$ 128.68	$ 145.05	$ 173.18
NYSE MARKET INDEX	$ 100.00	$ 96.16	$ 111.53	$ 140.85	$ 150.35	$ 144.21
SIC CODE INDEX	$ 100.00	$ 82.66	$ 106.98	$ 154.37	$ 192.72	$ 207.13

Table of Contents

Market for Registrant s Common Equity

The quarterly range of high and low close prices for the Company s common stock as reported by the New York Stock Exchange is as follows:

For the Quarter Ended	Price Range High	Price Range Low
March 29, 2014	$ 114.94	$ 98.04
June 28, 2014	$ 114.29	$ 98.54
September 27, 2014	$ 107.16	$ 99.25
December 31, 2014	$ 116.98	$ 95.08
April 4, 2015	$ 124.94	$ 112.53
July 4, 2015	$ 136.50	$ 122.00
October 3, 2015	$ 135.14	$ 115.23
December 31, 2015	$ 136.17	$ 117.38

Purchases of Equity Securities by the Issuer

The following table provides information about purchases by the Company during the three months ended December 31, 2015 of equity securities registered by the Company under the Exchange Act (in thousands, except per share data):

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (2) (3)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs (3)
October 4 to October 31, 2015		$		$ 519,503
November 1 to November 28, 2015	320	$ 131.68	320	$ 477,372
November 29 to December 31, 2015	287	$ 130.52	275	$ 441,435
Total	607	$ 131.13	595	$ 441,435

(1) The Company repurchased $7 million of common stock related to the vesting of restricted stock units during 2015.

(2) The Company purchased an aggregate of 0.2 million shares of its outstanding common stock in 2015 in open market transactions pursuant to a repurchase program that was announced in May 2012 (the 2012 Program). The 2012 Program authorized the repurchase of up to $750 million of common stock in open market transactions over a two-year period and, in May 2014, the Board of Directors authorized the extension of that program through May 2015.

(3) The Company purchased an aggregate of 2.4 million shares of its outstanding common stock in 2015 in open market transactions pursuant to a repurchase program that was announced in May 2014 (the 2014 Program). The 2014 Program authorized the repurchase of up to $750 million of common stock in open market transactions over a three-year period.

Item 6: ***Selected Financial Data***

The following table sets forth selected historical consolidated financial and operating data for the periods indicated. The statement of operations and balance sheet data is derived from audited financial statements for the years 2015, 2014, 2013, 2012 and 2011. The Company s financial statements as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015 are included in Item 8, Financial Statements and Supplementary Data, in Part II of this Form 10-K.

In thousands, except per share and employees data	2015	2014	2013	2012	2011
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 2,042,332	$ 1,989,344	$ 1,904,218	$ 1,843,641	$ 1,851,184
Income from operations before income taxes	$ 541,919	$ 490,740	$ 490,105	$ 487,625	$ 509,252
Net income	$ 469,053	$ 431,620	$ 450,003	$ 461,443	$ 432,968
Net income per basic common share	$ 5.70	$ 5.12	$ 5.27	$ 5.25	$ 4.77
Weighted-average number of basic common shares	82,336	84,358	85,426	87,841	90,833
Net income per diluted common share	$ 5.65	$ 5.07	$ 5.20	$ 5.19	$ 4.69
Weighted-average number of diluted common shares and equivalents	83,087	85,151	86,546	88,979	92,325
BALANCE SHEET AND OTHER DATA:					
Cash, cash equivalents and investments	$ 2,399,263	$ 2,055,388	$ 1,803,670	$ 1,539,025	$ 1,281,351
Working capital, including current maturities of debt*	$ 2,649,457	$ 2,236,558	$ 2,038,100	$ 1,701,784	$ 1,284,372
Total assets*	$ 4,268,677	$ 3,874,690	$ 3,580,106	$ 3,181,597	$ 2,733,633
Long-term debt*	$ 1,493,027	$ 1,237,463	$ 1,188,162	$ 1,042,559	$ 696,956
Stockholders equity	$ 2,058,851	$ 1,894,666	$ 1,763,173	$ 1,467,357	$ 1,226,578
Employees	6,594	6,161	5,965	5,860	5,672

* In 2015, the Company adopted new accounting guidance related to the presentation of debt issuance costs and deferred income taxes, both standards have been applied above retrospectively. Certain debt issuance costs have been reclassified from intangible assets and are presented as a direct deduction from the carrying value of the associated debt. Current deferred tax assets and liabilities have been reclassified as non-current deferred tax assets and liabilities.

Item 7: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Business and Financial Overview

The Company has two operating segments: Waters Division and TA Division (TA®). The Waters Division s 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 life science (including 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 years ended December 31, 2015, 2014 and 2013 (in thousands, except per share data):

	Year Ended December 31,			% change	
	2015	**2014**	**2013**	***2015 vs. 2014***	***2014 vs. 2013***
Product sales	$ 1,385,256	$ 1,346,729	$ 1,312,503	*3%*	*3%*
Service sales	657,076	642,615	591,715	*2%*	*9%*
Total net sales	2,042,332	1,989,344	1,904,218	*3%*	*4%*
Total cost of sales	842,672	824,913	783,456	*2%*	*5%*
Gross profit	1,199,660	1,164,431	1,120,762	*3%*	*4%*
Gross profit as a % of sales	*58.7%*	*58.5%*	*58.9%*		
Selling and administrative expenses	495,747	512,707	492,965	*(3%)*	*4%*
Research and development expenses	118,545	107,726	100,536	*10%*	*7%*
Acquired in-process research and development	3,855	15,456		*(75%)*	
Purchased intangibles amortization	10,123	10,634	9,918	*(5%)*	*7%*
Litigation provisions	3,939				
Operating income	567,451	517,908	517,343	*10%*	
Operating income as a % of sales	*27.8%*	*26.0%*	*27.2%*		
Other expense			(1,575)		*(100%)*
Interest expense, net	(25,532)	(27,168)	(25,663)	*(6%)*	*6%*
Income from operations before income taxes	541,919	490,740	490,105	*10%*	
Provision for income taxes	72,866	59,120	40,102	*23%*	*47%*
Net income	$ 469,053	$ 431,620	$ 450,003	*9%*	*(4%)*
Net income per diluted common share	$ 5.65	$ 5.07	$ 5.20	*11%*	*(3%)*

In 2015, the Company s sales increased 3% as compared to 2014, with foreign currency translation reducing sales growth by 6%. In 2015, the Company experienced strong demand for products and services from life science, industrial chemical, nutritional safety and environmental customers. This strength in demand was driven by double-digit sales growth in the U.S., China and India, while sales in Europe, Japan and the rest of the world declined due to the effect of the strengthening of the U.S. dollar against substantially all currencies throughout the world. Sales in Europe declined 8%, where foreign currency translation reduced sales growth by 14%, Japan sales decreased 11%, where foreign currency translation decreased sales by 12%, and sales in the rest of the world declined by 8%, with foreign currency translation decreasing sales by 5%.

Instrument system sales increased 3% in both 2015 and 2014 due to higher demand for LC and LC-MS instrument systems. The 2015 instrument systems sales growth was driven by demand for HPLC, UPLC and QDa® instrument systems, as well as the newly introduced ACQUITY® ARC instrument system. Recurring revenues (combined sales of chemistry consumables and services) increased 2% and 7% in 2015 and 2014, respectively, as a result of a larger installed base of customers and higher billing demand for service sales. The effect of foreign currency translation negatively impacted sales by 6% and 2% across all products and services in 2015 and 2014, respectively. Based on current foreign exchange rates, the Company expects that foreign currency translation may negatively affect sales growth in 2016. Acquisitions had a minimal impact on sales growth in both 2015 and 2014.

Table of Contents

The Company s sales growth rates by customer end-market were negatively impacted by foreign currency translation as discussed above. Despite the negative effects of foreign currency translation, the Company s customer end-market sales were able to grow as follows:

- Sales to life science customers grew 4% and 8% in 2015 and 2014, respectively. Sales growth in 2015 was driven by double-digit growth in the U.S., China and India and sales growth in 2014 was positive in all regions, except Japan.

- Combined sales to industrial chemical, nutritional safety and environmental customers increased 4% in 2015 and decreased 1% in 2014. The increase in 2015 was driven by double-digit growth in the U.S., China and India, while the decline in 2014 is primarily due to weaker industrial chemical customer demand for both Waters Division and TA Division instrument systems.

- Combined global sales to governmental and academic customers decreased 5% in 2015 and increased 4% in 2014. In 2015, combined sales to governmental and academic customers grew in the U.S. and China but declined in all other regions.

Operating income was $567 million in 2015, an increase of 10% as compared to 2014. This increase was primarily a result of the effect of higher sales volume achieved in 2015 being partly offset by a $56 million reduction in operating income from the adverse effects of foreign currency translation. Operating income was flat in 2014 as compared to 2013 as the increase in sales volume was offset by the negative effects of foreign currency translation, which decreased 2014 operating profit by approximately $22 million. In addition, operating income was impacted by the following items:

- Acquired in-process research and development charges of $4 million and $15 million in 2015 and 2014, respectively, related to the licensing of certain intellectual property relating to mass spectrometry technologies yet to be commercialized.

- Litigation settlement provisions of $4 million in 2015.

- Severance-related costs included in selling and administrative expenses of $3 million and $6 million incurred in 2015 and 2014, respectively, in connection with reductions in workforce, primarily in Europe in 2015 and primarily in the U.S. in 2014.

- An impairment charge included in selling and administrative expenses of $5 million in 2014 related to a write-down in the fair value of a building held for sale in the U.K., which was offset slightly by a $2 million award received in 2014 from an arbitration settlement.

Net income per diluted share was primarily affected by the following factors in 2015, 2014 and 2013:

- Foreign currency translation decreased net income per diluted share by $0.59 in 2015, $0.23 in 2014 and $0.27 in 2013.

- Acquired in-process research and development charges in 2015 and 2014 decreased net income per diluted share by $0.04 and $0.14, respectively.

- Litigation settlement provisions in 2015 reduced net income per diluted share by $0.03.

- Severance-related costs in 2015 and 2014 reduced net income per diluted share by $0.03 and $0.04, respectively.

An impairment charge in 2014 related to a building held for sale in the U.K. reduced net income per diluted share by $0.04.

In 2013, the Company recorded a $31 million net tax benefit related to the completion of tax audit examinations. In addition, a $3 million benefit related to the research and development tax credit (R&D Tax Credit) for the 2012 tax year was recorded in the first quarter of 2013. These tax benefits added $0.39 per diluted share in 2013.

24

Table of Contents

The effect of lower weighted-average shares outstanding resulting from the Company s share repurchase program, offset by the incremental net interest expense on borrowings to repurchase those shares, increased net income per diluted share $0.16, $0.07 and $0.11 in 2015, 2014 and 2013, respectively. The Company plans to continue its share repurchase program in 2016.

Net cash provided by operating activities was $560 million, $512 million and $485 million in 2015, 2014 and 2013, respectively. The $48 million increase in operating cash flow in 2015 when compared to 2014 was primarily a result of the increase in net income, as well as the timing of cash receipts from customers and the timing of payments to vendors. The $27 million increase in operating cash flow in 2014 when compared to 2013 was primarily a result of the timing of cash receipts from customers and the timing of payments to vendors.

Within cash flows used in investing activities, capital expenditures related to property, plant, equipment and software capitalization were $100 million, $91 million and $118 million in 2015, 2014 and 2013, respectively. Capital expenditures in 2013 included multi-year construction projects to accommodate future growth. The construction of the new $83 million research, manufacturing and distribution facility in Wilmslow, England was completed in early 2014. During 2015 and 2014, the Company made payments of $3 million and $15 million, respectively, to acquire and license intellectual property.

In November 2015, the Company acquired all of the outstanding stock of MPE Orbur Group Limited and its sole operating subsidiary, Midland Precision Equipment Company, Ltd. (MPE), a manufacturer of MS instrumentation components, for $12 million, net of cash acquired. MPE is a highly skilled manufacturer and former Waters supplier that produces critical components that support the Company s MS instrument systems. In the fourth quarter of 2015, the Company acquired certain assets of its Malaysian sales and service distributor for $2 million in cash. In May 2015, the Company acquired the net assets of the ElectroForce® business of the Bose Corporation (ElectroForce), for $9 million in cash. ElectroForce is a manufacturer of dynamic mechanical testing systems used to characterize medical devices, biologic and engineered materials. These acquisitions are not expected to have a significant impact on the Company s sales and profits in 2016.

In July 2014, the Company acquired Medimass Research, Development and Service Kft. and ULSP B.V. for a total of $27 million, net of cash acquired. As a result of the Medimass acquisition, the Company expects to incur additional costs related to commercializing new mass spectrometry-related technologies in 2016 and beyond. In 2013, the Company acquired Scarabaeus Mess-und Prodktionstechnik GmbH, Nonlinear Dynamics Ltd., Expert Systems Solutions S.r.l. and LaserComp Inc. for a total of $41 million, net of cash acquired. The Company continues to evaluate the acquisition of businesses, product lines and technologies to augment the Waters and TA operating divisions.

In April 2015, the Company entered into an amendment to the credit agreement dated June 2013. 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. 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 and authorized the extension of the May 2012 program until May 2015. During 2015, 2014 and 2013, the Company repurchased $327 million, $329 million and $295 million of the Company s outstanding common stock, 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 and debt levels, as well as to invest in research, technology and business acquisitions to further grow the Company s sales and profits. In addition, the Company received $52 million, $74 million and $69 million of proceeds from stock plans in 2015, 2014 and 2013, respectively. Fluctuations in these amounts were primarily attributable to changes in the Company s stock price.

Table of Contents

Results of Operations

Sales by Geography

Geographic sales information is presented below for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Year Ended December 31,			% change	
	2015	2014	2013	*2015 vs. 2014*	*2014 vs. 2013*
Net Sales:					
United States	$ 656,361	$ 596,549	$ 557,734	*10%*	*7%*
Europe	555,886	607,080	573,786	*(8%)*	*6%*
Asia:					
China	278,600	238,892	240,535	*17%*	*(1%)*
Japan	145,184	163,468	170,115	*(11%)*	*(4%)*
Asia Other	272,179	237,668	216,229	*15%*	*10%*
Total Asia	695,963	640,028	626,879	*9%*	*2%*
Other	134,122	145,687	145,819	*(8%)*	
Total net sales	$ 2,042,332	$ 1,989,344	$ 1,904,218	*3%*	*4%*

In 2015, the U.S. sales growth was broad-based across all products and was driven by life science, industrial chemical, nutritional safety and environmental customers. Europe s sales in 2015 were broad-based across all products and customer classes, but declined as a result of the negative effects of foreign currency. China achieved strong double-digit sales growth in all product and customer classes in 2015. Japan s 2015 sales were negatively impacted by foreign currency translation, which decreased sales by 12%. The increase in sales in the rest of Asia in 2015 was driven by life science, industrial chemical, nutritional safety and environmental customers across all product classes. Sales in the rest of the world in 2015 increased to life science customers but declined across all other customer and product classes. The decline in sales in the rest of the world in 2015 was significantly attributable to a reduction in customer demand in Latin America caused by the strengthening of the U.S. dollar and the weak Brazilian economy.

In 2014, the U.S. sales growth was driven by an increase in LC and LC-MS instrument system sales and service sales to life science, governmental and academic customers. Europe s sales in 2014 were driven by LC, LC-MS and TA instrument system sales and service sales across all customer classes. China s sales decline in 2014 can be primarily attributed to lower research-focused, higher priced instrument sales to governmentally funded customers that experienced a tightening of government spending. Japan s 2014 sales were negatively impacted by foreign currency translation, which decreased sales in 2014 by 8%. The increase in sales in the rest of Asia in 2014 was driven by an increase in LC and LC-MS instrument system sales and service sales to life science, governmental and academic customers, primarily in India. Sales in the rest of the world in 2014 were flat as increased service sales to life science, governmental and academic customers were offset by weakness in other areas.

Table of Contents

Waters Division Net Sales

Net sales for the Waters Division s products and services are as follows for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Year Ended December 31,						% change	
	2015	% of Total	2014	% of Total	2013	% of Total	2015 vs. 2014	2014 vs. 2013
Waters instrument systems	$ 895,626	50%	$ 871,048	49%	$ 840,608	50%	3%	4%
Chemistry	317,941	17%	312,890	18%	304,130	18%	2%	3%
Total Waters Division product sales	1,213,567	67%	1,183,938	67%	1,144,738	68%	3%	3%
Waters service	593,301	33%	579,759	33%	532,323	32%	2%	9%
Total Waters Division net sales	$ 1,806,868	100%	$ 1,763,697	100%	$ 1,677,061	100%	2%	5%

The increase in Waters instrument system sales (LC and MS technology-based) in both 2015 and 2014 is primarily attributable to higher sales of LC and LC-MS instrument system sales. The 2015 instrument systems sales growth was driven by demand for HPLC, UPLC and QDa® instrument systems, as well as the newly introduced ARC instrument system. Chemistry consumables sales increased in both 2015 and 2014 on the uptake in ACQUITY columns. Waters Division service sales increased in both 2015 and 2014 due to increased sales of service plans and higher service demand billings to a higher installed base of customers. The effect of foreign currency translation decreased Waters Division sales across all products and services by 7% and 1% in 2015 and 2014, respectively. The impact of the acquisitions of MPE in 2015 and Medimass in 2014 was not significant to the Waters Division sales in 2015.

In 2015, Waters Division sales increased 10% in the U.S. and 8% in Asia, while sales decreased 8% in Europe and the rest of the world. The increase in sales in the U.S. in 2015 was across all customer classes. Waters Division sales in China increased 16% in 2015, but decreased 11% in Japan due to the effects of foreign currency translation. Waters Division sales in the rest of Asia increased 14% and were driven by sales to life science, industrial chemical, nutritional safety and environmental customers.

In 2014, Waters Division sales increased 8% in the U.S., 5% in Europe, 4% in Asia and 1% in the rest of the world. The increase in sales in the U.S. in 2014 was primarily driven by sales to life science, governmental and academic customers. Waters Division sales in China increased 1% in 2014, but decreased 4% in Japan due to the effects of foreign currency translation. Waters Division sales in the rest of Asia increased 13% and were driven by sales to life science customers in India as well as governmental and academic customers.

TA Division Net Sales

Net sales for the TA Division s products and services are as follows for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Year Ended December 31,						% change	
	2015	% of Total	2014	% of Total	2013	% of Total	2015 vs. 2014	2014 vs. 2013
TA instrument systems	$ 171,689	73%	$ 162,791	72%	$ 167,765	74%	5%	(3%)
TA service	63,775	27%	62,856	28%	59,392	26%	1%	6%
Total TA net sales	$ 235,464	100%	$ 225,647	100%	$ 227,157	100%	4%	(1%)

The increase in TA instrument system sales in 2015 was primarily attributable to TA s thermal physical properties instruments. In addition, TA s core thermal analysis instrument systems sales rebounded in 2015 after

Table of Contents

a decrease in 2014 in comparison to stronger sales in 2013. TA service sales increased in both 2015 and 2014 due to sales of service plans and billings to a higher installed base of customers. The effect of foreign currency translation decreased TA s sales by 5% and 1% in 2015 and 2014, respectively. Recent acquisitions added approximately 3% to TA s sales in both 2015 and 2014. In 2015, TA showed sales growth in the U.S. and Asia, excluding Japan, but sales declined in Europe, Japan and the rest of the world as a result of negative foreign currency translation. TA s 2014 sales increased moderately in the U.S. and Europe but declined in most other regions.

Gross Profit

Gross profit increased 3% and 4% in 2015 and 2014, respectively. Both years benefited from increased sales volumes which were somewhat offset by negative foreign currency translation in 2014. Gross profit as a percentage of sales was 58.7%, 58.5% and 58.9% for 2015, 2014 and 2013, respectively.

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 may negatively affect gross profit in 2016, based on current exchange rates.

Selling and Administrative Expenses

Selling and administrative expenses decreased 3% in 2015 and increased 4% in 2014. Foreign currency translation reduced selling and administrative expenses by 7% in 2015. Selling and administrative expenses in 2015 and 2014 were impacted by headcount additions, higher merit compensation costs and included $3 million and $6 million, respectively, of severance-related costs in connection with a reduction in workforce. In 2014, the Company incurred a $5 million impairment charge related to a write-down in the fair value of a building held for sale in the U.K. This building was sold in 2015 for $5 million in cash. These expenses in 2014 were offset slightly by a $2 million award received in 2014 from an arbitration settlement. Selling and administrative expenses in 2013 were impacted by headcount additions and higher merit compensation, offset slightly by favorable foreign currency translation due to the weakness in the Japanese yen. As a percentage of net sales, selling and administrative expenses were 24.3%, 25.8% and 25.9% for 2015, 2014 and 2013, respectively.

Research and Development Expenses

Research and development expenses increased 10% and 7% in 2015 and 2014, respectively. Research and development expenses in both 2015 and 2014 were impacted by additional headcount, merit compensation and costs associated with new products and the development of new technology initiatives. In addition, research and development expenses in 2015 included a benefit from a $3 million government grant, as well as favorable effects of foreign currency translation. In 2014, the effect of foreign currency translation was unfavorable and increased expenses.

Acquired In-Process Research and Development

During 2015 and 2014, the Company incurred charges of $4 million and $15 million, respectively, for acquired in-process research and development related to the licensing of certain intellectual property relating to mass spectrometry technologies yet to be commercialized and for which there was no future alternative use as of the acquisition date. These licensing arrangements are significantly related to new, biologically-focused applications, as well as other applications, and require the Company to make additional future payments of up to $12 million if certain milestones are achieved, as well as royalties on future net sales. These future payments may be significant and occur over multiple years.

Litigation Provision

The Company recorded $4 million of litigation settlement provisions and related costs in 2015.

Other Expense

The Company recorded a $2 million charge in 2013 for an other-than-temporary impairment to an investment.

Interest Expense, Net

The increases in net interest expense in 2015 and 2014 were primarily attributable to an increase in average borrowings.

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%, 20.25% and 0%, respectively, as of December 31, 2015. In 2015, the Company entered into a new agreement with Singapore tax authorities that extended a 0% contractual tax rate through March 2021. The contractual tax rate is dependent upon the achievement of certain contractual milestones, which the Company expects to meet. The current statutory tax rate in Singapore is 17%. 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 years.

The Company s effective tax rates were 13.4%, 12.0% and 8.2% in 2015, 2014 and 2013, respectively. The increase in the effective tax rate in 2015 as compared to 2014 can be attributed to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates. In addition, the income tax provision for 2015 included a $3 million tax benefit related to the completion of tax audit examinations.

The increase in the effective tax rate in 2014 as compared to 2013 can be attributed to the fact that the income tax provision for 2013 included a $31 million net tax benefit related to the completion of tax audit examinations. In addition, the R&D Tax Credit was retroactively extended in January 2013 for the 2012 and 2013 tax years. The entire $3 million benefit related to the 2012 tax year was recorded in the first quarter of 2013, and the 2013 benefit was included in the 2013 annual effective tax rate. The net income tax benefits related to the completed tax audit examinations and the 2012 R&D Tax Credit decreased the Company s effective tax rate by 6.9 percentage points in 2013. The remaining differences between the effective tax rates for 2014 and 2013 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):

	Year Ended December 31,		
	2015	2014	2013
Net income	$ 469,053	$ 431,620	$ 450,003
Depreciation and amortization	89,987	94,231	79,695
Stock-based compensation	33,368	32,998	31,708
Deferred income taxes	6,581	1,583	169
Gain on sale of building/building impairment	(1,377)	4,718	
In-process research and development and other non-cash charges	4,638	16,481	
Change in accounts receivable	(49,888)	(29,435)	(35,233)
Change in inventories	(19,967)	(15,984)	(11,389)
Change in accounts payable and other current liabilities	27,451	(13,687)	(28,127)
Change in deferred revenue and customer advances	16,172	9,566	8,512
Other changes	(15,725)	(20,443)	(10,462)
Net cash provided by operating activities	560,293	511,648	484,876
Net cash used in investing activities	(399,739)	(402,030)	(464,729)
Net cash used in financing activities	(69,594)	(107,221)	(64,588)
Effect of exchange rate changes on cash and cash equivalents	(25,472)	(21,016)	4,202
Increase (decrease) in cash and cash equivalents	$ 65,488	$ (18,619)	$ (40,239)

Cash Flow from Operating Activities

Net cash provided by operating activities was $560 million, $512 million and $485 million in 2015, 2014 and 2013, respectively. The changes within net cash provided by operating activities include the following significant changes in the sources and uses of net cash provided by operating activities, aside from the changes in net income:

The changes in accounts receivable were primarily attributable to timing of payments made by customers and timing of sales. Days sales outstanding was 71 days at December 31, 2015, 68 days at December 31, 2014 and 69 days at December 31, 2013.

The changes in inventory were primarily attributable to anticipated annual increases in sales volumes, as well as new product launches.

The changes in accounts payable and other current liabilities were a result of timing of payments to vendors. In addition, 2013 includes a $31 million decrease in accrued income taxes due to the resolution of ongoing tax audits.

Net cash provided from deferred revenue and customer advances results from annual increases in new 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. In addition, the Company made one-time contributions totaling $21 million to certain Non-U.S. pension plans during 2014.

Cash Used in Investing Activities

Net cash used in investing activities totaled $400 million, $402 million and $465 million in 2015, 2014 and 2013, respectively. Additions to fixed assets and capitalized software were $100 million, $91 million and $118 million in 2015, 2014 and 2013, respectively. During 2015, 2014 and 2013, the Company purchased $2.0 billion,

30

$2.2 billion and $3.0 billion of investments, respectively, while $1.7 billion, $1.9 billion and $2.7 billion of investments matured, respectively. Business acquisitions, net of cash acquired, were $23 million, $27 million and $41 million during 2015, 2014 and 2013, respectively. In 2015, the Company received $5 million cash from the sale of a building in the U.K. During 2015 and 2014, the Company made payments of $3 million and $15 million, respectively, to acquire and license intellectual property.

Cash Used in Financing Activities

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 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.

In June 2014, the Company issued and sold senior unsecured notes with an aggregate principal amount of $200 million. All of the proceeds from the issuance of the new senior unsecured notes were used to repay outstanding portions of the revolving facility. 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.

During 2015, 2014 and 2013, the Company s net debt borrowings increased by $205 million, $142 million and $146 million, respectively. As of December 31, 2015, the Company had a total of $1,668 million in outstanding debt, which consisted of $500 million in outstanding senior unsecured notes, $300 million borrowed under a term loan facility under the Amended Credit Agreement, $870 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 December 31, 2015, $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 $745 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 December 31, 2015, the Company had a total amount available to borrow under the Amended Credit Agreement of $428 million after outstanding letters of credit. As of December 31, 2015, 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 and authorized the extension of the May 2012 program until May 2015. During 2015, 2014 and 2013, the Company repurchased 2.6 million, 3.1 million and 3.1 million shares of the Company s outstanding common stock at a cost of $327 million, $329 million and $295 million, respectively, under the May 2014 authorization and other previously announced programs. As of December 31, 2015, the Company repurchased an aggregate of 7.6 million shares at a cost of $750 million under the May 2012 repurchase program, which is now completed. The Company has a total of $441 million authorized for future repurchases under the May 2014 plan. In addition, the Company repurchased $7 million, $8 million and $6 million of common stock related to the vesting of restricted stock units during the years ended December 31, 2015, 2014 and 2013, respectively.

The Company received $52 million, $74 million and $69 million of proceeds from the exercise of stock options and the purchase of shares pursuant to the Company s employee stock purchase plan in 2015, 2014 and 2013, respectively.

The Company had cash, cash equivalents and investments of $2,399 million as of December 31, 2015. The majority of the Company s cash, cash equivalents and investments are generated from foreign operations, with $2,346 million held by foreign subsidiaries at December 31, 2015. 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 and Commercial Commitments

The following is a summary of the Company s known contractual obligations as of December 31, 2015 (in thousands):

	Payments Due by Year (1)							
	Total	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Notes payable and debt	$ 175,309	$ 175,309	$	$	$	$	$	$
Interest on senior unsecured notes	81,354	16,751	16,491	13,941	13,271	8,687	4,999	7,214
Long-term debt	1,495,000			100,000		1,145,000	150,000	100,000
Operating leases	67,159	21,173	15,437	9,135	6,292	5,187	3,367	6,568
Total	$ 1,818,822	$ 213,233	$ 31,928	$ 123,076	$ 19,563	$ 1,158,874	$ 158,366	$ 113,782

(1) Does not include normal purchases made in the ordinary course of business and uncertain tax positions discussed below.

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 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. As of December 31, 2015, the Company was in compliance with all such covenants.

The following is a summary of the Company s known commercial commitments as of December 31, 2015 (in thousands):

		Amount of Commitments Expiration Per Period						
	Total	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Letters of credit	$ 1,826	$ 1,826	$	$	$	$	$	$

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 it has meritorious arguments in its current litigation matters and believes any outcome, either individually or in the aggregate, will not be material to the Company s financial position or results of operations.

The Company has long-term liabilities for deferred employee compensation, including pension and supplemental executive retirement plans. The payments related to the supplemental retirement plan are not included above since they are dependent upon when the employee retires or leaves the Company and whether the employee elects lump-sum or annuity payments. During fiscal year 2016, the Company expects to contribute approximately $5 million to $10 million to the Company s defined benefit plans.

The Company has contingent consideration for an earnout pertaining to the Medimass acquisition. The earnout payments are not included above since they are dependent upon many factors that cannot be predicted with any certainty. The estimated fair value of the contingent consideration as of December 31, 2015 is $4 million.

The Company licenses certain technology and software from third parties. Future minimum license fees payable under existing license agreements as of December 31, 2015 are immaterial. The Company enters into licensing arrangements with third parties that require future milestone or royalty payments contingent upon future events. Upon the achievement of certain milestones in existing agreements, the Company could make additional future payments of up to $12 million, as well as royalties on future net sales. It is not possible to predict with reasonable certainty whether these milestones will be achieved or the timing for achievement. As a result, these potential payments are not included in the table above.

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. If

Table of Contents

all of the Company s unrecognized tax benefits accrued as of December 31, 2015 were to become recognizable in the future, the Company would record a total reduction of approximately $14 million in its income tax provision.

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, 2011. However, carryforward attributes that were generated in years beginning on or before January 1, 2012 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.

During the year ended December 31, 2013, the Company concluded tax audit disputes with tax authorities in the U.S. and Japan that were related to matters for which the Company had previously recorded uncertain tax benefits of approximately $35 million. The resolution of these tax disputes also entailed net global assessments against the Company of approximately $4 million. Accordingly, the Company recorded a $35 million reduction in the measurement of its unrecognized tax benefits and a $4 million increase in its current tax liabilities in the year ended December 31, 2013, which reduced the provision for income taxes and increased net income for the year ended December 31, 2013 by $31 million.

During the year ended December 31, 2015, the Company concluded U.S. tax audit disputes that, in part, related to matters for which the Company had recorded net uncertain tax benefits. The resolution of these tax disputes resulted in a $2 million reduction in the measurement of its unrecognized tax benefits and a $2 million decrease in its provision for income taxes for the year ended December 31, 2015.

As of December 31, 2015, the Company expects to record additional reductions in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately $5 million within the next twelve months due to 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.

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.

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.

Table of Contents

Critical Accounting Policies and Estimates

Summary

The preparation of consolidated financial statements 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. Critical accounting policies are those that are central to the presentation of the Company s financial condition and results of operations that require management to make estimates about matters that are highly uncertain and that would have a material impact on the Company s results of operations given changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that reasonably could have been used in the current period. On an ongoing basis, the Company evaluates its policies and estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may differ from these estimates under different assumptions or conditions. There are other items within the Company s consolidated financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could potentially have a material impact on the Company s consolidated financial statements.

Revenue Recognition

Sales of products and services are generally recorded based on product shipment and performance of service, respectively. The Company s deferred revenue on the consolidated balance sheets consists of the obligation on instrument service contracts and customer payments received in advance, prior to shipment of the instrument. At December 31, 2015, the Company had current and long-term deferred revenue liabilities of $142 million and $29 million, respectively. Revenue is recognized when all of the following revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery or performance has occurred; the vendor s fee is fixed or determinable; collectibility is reasonably assured and, if applicable, upon acceptance when acceptance criteria with contractual cash holdback are specified. Shipping and handling costs are included in cost of sales, net of amounts invoiced to the customer per the order.

Product shipments, including those for demonstration or evaluation, and service contracts are not recorded as revenue until a valid purchase order or master agreement is received, specifying fixed terms and prices. The Company generally recognizes product revenue when legal title has transferred and risk of loss passes to the customer. The Company generally structures its sales arrangements as shipping point or international equivalent and, accordingly, recognizes revenue upon shipment. In some cases, destination-based shipping terms are included in sales arrangements, in which cases revenue is generally recognized when the products arrive at the customer site.

The Company s method of revenue recognition for certain products requiring installation is accounted for in accordance with multiple-element revenue recognition accounting standards. With respect to the installation obligations, the larger of the contractual cash holdback or the best estimate of selling price of the installation service is deferred when the product is shipped and revenue is recognized as a multiple-element arrangement when installation is complete. The Company determines the best estimate of selling price of installation based upon a number of factors, including hourly service billing rates and estimated installation hours.

Instrument service contracts are typically billed at the beginning of the maintenance period. The amount of the service contract is amortized ratably to revenue over the instrument maintenance period. There are no deferred costs associated with the service contract, as the cost of the service is recorded when the service is performed. No revenue is recognized until all revenue recognition criteria have been met.

Sales of standalone software are accounted for in accordance with the accounting standards for software revenue recognition. The Company s software arrangements typically include software licenses and maintenance contracts. Software license revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collection is probable, and there are no significant post-delivery obligations remaining. The revenue associated with the software maintenance contract is recognized ratably over the maintenance term. Unspecified rights to software upgrades are typically sold as part of the maintenance contract on a when-and-if-available basis. The Company uses the residual method to allocate software revenue when a transaction includes multiple elements and vendor specific objective evidence of fair value of undelivered elements exists. Under the residual method, the fair value of the undelivered element (maintenance) is deferred and the remaining portion of the arrangement fee is allocated to the delivered element (software license) and recognized as revenue.

Returns and customer credits are infrequent and are recorded as a reduction to sales. Rights of return are not included in sales arrangements. Revenue associated with products that contain specific customer acceptance criteria is not recognized before the customer acceptance criteria are satisfied. Discounts from list prices are recorded as a reduction to sales.

Loss Provisions on Accounts Receivable and Inventory

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company does not request collateral from its customers, but collectibility is enhanced through the use of credit card payments and letters of credit. The Company assesses collectibility based on a number of factors, including, but not limited to, past transaction history with the customer, the credit-worthiness of the customer, industry trends and the macro-economic environment. Historically, the Company has not experienced significant bad debt losses. Sales returns and allowances are estimates of future product returns related to current period revenue. Material differences may result in the amount and timing of revenue for any period if management made different judgments or utilized different estimates for sales returns and allowances for doubtful accounts. The Company s accounts receivable balance at December 31, 2015 was $468 million, net of allowances for doubtful accounts and sales returns of $7 million.

The Company values all of its inventories at the lower of cost or market on a first-in, first-out basis (FIFO). The Company estimates revisions to its inventory valuations based on technical obsolescence, historical demand, projections of future demand, including that in the Company s current backlog of orders, and industry and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional write-downs may be required. The Company s inventory balance at December 31, 2015 was recorded at its net realizable value of $263 million, which is net of write-downs of $17 million.

Long-Lived Assets, Intangible Assets and Goodwill

The Company assesses the impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important which could trigger impairment include, but are not limited to, the following:

- significant underperformance relative to historical or projected future operating results, particularly as it pertains to capitalized software and patent costs;

- significant negative industry or economic trends, competitive products and technologies; and

- significant changes or developments in strategic technological collaborations or legal matters which affect the Company s capitalized patents, purchased technology, trademarks and intellectual properties, such as licenses.

When the Company determines that the carrying value of an individual intangible asset, long-lived asset or goodwill may not be recoverable based upon the existence of one or more of the above indicators, an estimate of

Table of Contents

undiscounted future cash flows produced by that intangible asset, long-lived asset or goodwill, including its eventual residual value, is compared to the carrying value to determine whether impairment exists. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the asset, the asset is written-down to its estimated fair value. Net intangible assets, long-lived assets and goodwill amounted to $218 million, $333 million and $357 million, respectively, as of December 31, 2015.

The Company performs annual impairment reviews of its goodwill on January 1 of each year. For goodwill impairment review purposes, the Company has two reporting units, Waters Division and TA Division. The Company currently does not expect to record an impairment charge in the foreseeable future; however, there can be no assurance that, at the time future reviews are completed, a material impairment charge will not be recorded. The factors that could cause a material goodwill impairment charge in the future include, but are not limited to, the following:

- significant decline in the Company s projected revenue, earnings or cash flows;
- significant adverse change in legal factors or business climate;
- significant decline in the Company s stock price or the stock price of comparable companies;
- adverse action or assessment by a regulator; and
- unanticipated competition.

Income Taxes

As part of the process of preparing the consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves the Company estimating its actual current tax exposure together with assessing changes in temporary differences resulting from differing treatment of items, such as depreciation, amortization and inventory reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheets. In the event that actual results differ from these estimates, or the Company adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its financial position and results of operations.

The accounting standards for income taxes require that a company continually evaluate the necessity of establishing or changing a valuation allowance for deferred tax assets depending on whether it is more likely than not that the actual benefit of those assets will be realized in future periods. In addition, 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. At December 31, 2015, the Company had unrecognized tax benefits of $14 million.

Warranty

Product warranties are recorded at the time revenue is recognized for certain product shipments. 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. Should actual product failure rates, material usage or service delivery costs differ from the Company s previous estimates, revisions to the estimated warranty liability would be required. At December 31, 2015, the Company s warranty liability was $13 million.

Table of Contents

Litigation

As described in Item 3, Legal Proceedings, of Part I of this Form 10-K, the Company is a party to various pending litigation matters. With respect to each pending claim, management determines whether it can reasonably estimate whether a loss is probable and, if so, the probable range of that loss. If and when management has determined, with respect to a particular claim, both that a loss is probable and that it can reasonably estimate the range of that loss, the Company records a charge equal to either its best estimate of that loss or the lowest amount in that probable range of loss. The Company will disclose additional exposures when the range of loss is subject to considerable uncertainty.

Pension and Other Retirement Benefits

Assumptions used in determining projected benefit obligations and the fair values of plan assets for the Company s pension plans and other retirement benefits are evaluated periodically by management. Changes in assumptions are based on relevant Company data. Critical assumptions, such as the discount rate used to measure the benefit obligations and the expected long-term rate of return on plan assets, are evaluated and updated annually. The Company has assumed that the weighted-average expected long-term rate of return on plan assets will be 6.35% for its U.S. benefit plans and 2.58% for its non-U.S. benefit plans.

At the end of each year, the Company determines the discount rate that reflects the current rate at which the pension liabilities could be effectively settled. The Company utilized Milliman s Bond Matching model to determine the discount rate for its U.S. benefit plans. The Company determined the discount rate for its non-U.S. benefit plans based on the analysis of the Mercer Pension Discount Curve for high quality investments as of December 31, 2015 that best matched the timing of the plan s future cash flows for the period to maturity of the pension benefits. Once the interest rates were determined, the plan s cash flow was discounted at the spot interest rate back to the measurement date. At December 31, 2015, the Company determined the weighted-average discount rate to be 4.59% for the U.S. benefit plans and 2.23% for the non-U.S. benefits plans.

A one-quarter percentage point increase in the assumed long-term rate of return would decrease the Company s net periodic benefit cost for the Waters Retirement Plan by less than $1 million. A one-quarter percentage point increase in the discount rate would decrease the Company s net periodic benefit cost for the Waters Retirement Plan by less than $1 million.

Stock-based Compensation

The accounting standards for stock-based compensation require that all share-based payments to employees be recognized in the statements of operations based on their fair values. The Company has used the Black-Scholes option pricing model to determine the fair value of its stock option awards. Under the fair-value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating stock price volatility and employee stock option exercise behaviors. If actual results differ significantly from these estimates, stock-based compensation expense and the Company s results of operations could be materially impacted. As stock-based compensation expense recognized in the consolidated statements of operations is based on awards that ultimately are expected to vest, the amount of the expense has been reduced for estimated forfeitures. These 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 are estimated based on historical experience. If factors change and the Company employs different assumptions in the application of these accounting standards, the compensation expense that the Company records in future periods may differ significantly from what the Company has recorded in the current period. The Company recognizes the expense using the straight-line attribution method.

Table of Contents

As of December 31, 2015, unrecognized compensation costs and related weighted-average lives over which the costs will be amortized were as follows (in millions):

	Unrecognized Compensation Costs	Weighted-Average Life in Years
Stock options	$ 51	3.9
Restricted stock units	40	3.1
Restricted stock		
Total	$ 91	3.5

Business Combinations and Asset Acquisitions

The Company accounts for business acquisitions under the accounting standards for business combinations. The results of each acquisition are included in the Company s consolidated results as of the acquisition date and the purchase price of an acquisition is allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. Any excess of the fair value consideration transferred over the estimated fair values of the net assets acquired is recognized as goodwill. Acquired in-process research and development (IPR&D) included in a business combination is capitalized as an indefinite-lived intangible asset. Development costs incurred after the acquisition are expensed as incurred and acquired IPR&D is tested for impairment annually until completion of the acquired programs. Upon commercialization, this indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis over its estimated useful life, subject to periodic impairment reviews. If the research and development project is abandoned, the indefinite-lived asset is charged to expense. Legal costs, due diligence costs, business valuation costs and all other business acquisition costs are expensed when incurred.

The Company also acquires intellectual property through licensing arrangements. These arrangements often require upfront payments and may include additional milestone or royalty payments, contingent upon certain future events. IPR&D acquired in an asset acquisition (as opposed to a business combination) is expensed immediately unless there is an alternative future use. Subsequent payments made for the achievement of milestones are evaluated to determine whether they have an alternative future use or should be expensed. Payments made to third parties subsequent to commercialization are capitalized and amortized over the remaining useful life of the related asset, and are classified as intangible assets.

Contingent Consideration

In addition to the initial cash consideration paid to acquire Medimass, the Company is obligated to make additional earnout payments based on a royalty due on future sales of products containing the REIMS technology. In accordance with the accounting standards for business combinations, the Company determines the fair value of the liability for contingent consideration at each reporting date using a probability-weighted discounted cash flow model. 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 estimated future results and a discount rate reflective of 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, total future undiscounted contingent consideration payments were estimated to be $4 million as of December 31, 2015, based on the Company s best estimate, as the earnout is based on future sales of certain products through 2034.

Recent Accounting Standard Changes and Developments

Information regarding recent accounting standard changes and developments is incorporated by reference from Part II, Item 8, Financial Statements and Supplementary Data, of this document and should be considered an integral part of this Item 7. See Note 2 in the Notes to the Consolidated Financial Statements for recently adopted and issued accounting standards.

Table of Contents

Item 7A: ***Quantitative and Qualitative Disclosures About Market Risk***

The Company operates on a global basis and is exposed to the risk that its earnings, cash flows and stockholders equity could be adversely impacted by fluctuations in currency exchange rates. The Company attempts to minimize its exposures by using certain financial instruments, for purposes other than trading, in accordance with the Company s overall risk management guidelines.

The Company is primarily exposed to currency exchange-rate risk with respect to certain inter-company balances, forecasted transactions and cash flow, and net assets denominated in Euros, Japanese yen and British pounds. The Company is also exposed with respect to certain intercompany balances, forecasted transactions and cash flow in other currencies that have recently experienced market volatility, including the Brazilian real, Mexican peso, Canadian dollar, Australian dollar, Israeli shekel and Singapore dollar. The Company manages its foreign currency exposures on a consolidated basis, which allows the Company to analyze exposures globally and take into account offsetting exposures in certain balances. In addition, the Company utilizes derivative and non-derivative financial instruments to further reduce the net exposure to currency fluctuations.

The Company enters into foreign currency exchange contracts to manage exposures to changes in foreign currency exchange rates on certain inter-company balances and short-term assets and liabilities. Principal hedged currencies include the Euro, Japanese yen, British pound and Brazilian real. At December 31, 2015, 2014 and 2013, the Company held forward foreign exchange contracts with notional amounts totaling $116 million, $110 million and $104 million, respectively.

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

	December 31, 2015	December 31, 2014
Other current assets	$ 616	$ 123
Other current liabilities	$ 402	$ 651

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

	Year Ended December 31,		
	2015	2014	2013
Realized (losses) gains on closed contracts	$ (2,601)	$ 174	$ 8,666
Unrealized gains (losses) on open contracts	742	(1,369)	361
Cumulative net pre-tax (losses) gains	$ (1,859)	$ (1,195)	$ 9,027

Assuming a hypothetical adverse change of 10% in year-end exchange rates (a strengthening of the U.S. dollar), the fair market value of the forward contracts outstanding as of December 31, 2015 would decrease pre-tax earnings by approximately $12 million.

The Company s cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. The Company s cash equivalents represent highly liquid investments, with original maturities of 90 days or less, primarily in bank deposits, U.S. treasury bill money market funds and commercial paper. As of December 31, 2015, the carrying value of the Company s cash and cash equivalents approximated fair value.

The Company is exposed to the risk of interest rate fluctuations from the investments of cash generated from operations. Investments with maturities greater than 90 days are classified as investments, and are held primarily in U.S. treasury bills, U.S. dollar-denominated treasury bills and commercial paper, bank deposits and

Table of Contents

corporate debt securities. 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. As of December 31, 2015 and 2014, $2,346 million out of $2,399 million and $1,971 million out of $2,055 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. As of December 31, 2015, the Company has no holdings in auction rate securities or commercial paper issued by structured investment vehicles.

Table of Contents

Item 8: ***Financial Statements and Supplementary Data***

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control Integrated Framework 2013*, our management, including our chief executive officer and chief financial officer, concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Waters Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders equity, and cash flows present fairly, in all material respects, the financial position of Waters Corporation and its subsidiaries at December 31, 2015 and December 31, 2014 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it classifies deferred taxes in 2015 and 2014 due to the adoption of Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 26, 2016

Table of Contents

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 487,665	$ 422,177
Investments	1,911,598	1,633,211
Accounts receivable, net	468,315	433,616
Inventories	263,415	246,430
Other current assets	82,540	81,610
Total current assets	3,213,533	2,817,044
Property, plant and equipment, net	333,355	321,583
Intangible assets, net	218,022	229,822
Goodwill	356,864	354,838
Other assets	146,903	151,403
Total assets	$ 4,268,677	$ 3,874,690
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and debt	$ 175,309	$ 225,230
Accounts payable	70,573	65,704
Accrued employee compensation	54,653	47,198
Deferred revenue and customer advances	141,505	129,706
Accrued income taxes	14,894	15,143
Accrued warranty	13,349	13,266
Other current liabilities	93,793	84,239
Total current liabilities	564,076	580,486
Long-term liabilities:		
Long-term debt	1,493,027	1,237,463
Long-term portion of retirement benefits	77,063	85,230
Long-term income tax liabilities	14,884	20,397
Other long-term liabilities	60,776	56,448
Total long-term liabilities	1,645,750	1,399,538
Total liabilities	2,209,826	1,980,024
Commitments and contingencies (Notes 8, 9, 10, 11 and 14)		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 5,000 shares authorized, none issued at December 31, 2015 and December 31, 2014		
Common stock, par value $0.01 per share, 400,000 shares authorized, 157,677 and 156,716 shares issued, 81,472 and 83,147 shares outstanding at December 31, 2015 and December 31, 2014, respectively	1,577	1,567
Additional paid-in capital	1,490,342	1,392,494
Retained earnings	4,863,566	4,394,513
Treasury stock, at cost, 76,205 and 73,569 shares at December 31, 2015 and December 31, 2014, respectively	(4,149,908)	(3,815,203)

Accumulated other comprehensive loss	(146,726)	(78,705)
Total stockholders equity	2,058,851	1,894,666
Total liabilities and stockholders equity	$ 4,268,677	$ 3,874,690

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

Table of Contents

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
Product sales	$ 1,385,256	$ 1,346,729	$ 1,312,503
Service sales	657,076	642,615	591,715
Total net sales	2,042,332	1,989,344	1,904,218
Cost of product sales	565,630	549,121	526,721
Cost of service sales	277,042	275,792	256,735
Total cost of sales	842,672	824,913	783,456
Gross profit	1,199,660	1,164,431	1,120,762
Selling and administrative expenses	495,747	512,707	492,965
Research and development expenses	118,545	107,726	100,536
Acquired in-process research and development (Note 2)	3,855	15,456	
Purchased intangibles amortization	10,123	10,634	9,918
Litigation provisions (Note 10)	3,939		
Operating income	567,451	517,908	517,343
Other expense (Note 3)			(1,575)
Interest expense	(36,243)	(34,191)	(30,050)
Interest income	10,711	7,023	4,387
Income from operations before income taxes	541,919	490,740	490,105
Provision for income taxes	72,866	59,120	40,102
Net income	$ 469,053	$ 431,620	$ 450,003
Net income per basic common share	$ 5.70	$ 5.12	$ 5.27
Weighted-average number of basic common shares	82,336	84,358	85,426
Net income per diluted common share	$ 5.65	$ 5.07	$ 5.20
Weighted-average number of diluted common shares and equivalents	83,087	85,151	86,546

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

45

Table of Contents

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2015	2014	2013
		(In thousands)	
Net income	$ 469,053	$ 431,620	$ 450,003
Other comprehensive (loss) income:			
Foreign currency translation	(70,481)	(61,728)	11,843
Unrealized (losses) gains on investments before reclassifications	(1,825)	(532)	134
Amounts reclassified to other expense			1,575
Unrealized (losses) gains on investments before income taxes	(1,825)	(532)	1,709
Income tax benefit (expense)	31	43	(639)
Unrealized (losses) gains on investments, net of tax	(1,794)	(489)	1,070
Retirement liability adjustment before reclassifications	191	(34,797)	27,888
Amounts reclassified to selling and administrative expenses	4,443	2,886	3,678
Retirement liability adjustment	4,634	(31,911)	31,566
Income tax (expense) benefit	(380)	9,544	(12,205)
Retirement liability adjustment, net of tax	4,254	(22,367)	19,361
Other comprehensive (loss) income	(68,021)	(84,584)	32,274
Comprehensive income	$ 401,032	$ 347,036	$ 482,277

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

Table of Contents

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 469,053	$ 431,620	$ 450,003
Adjustments to reconcile net income to net cash provided by operating activities:			
Provisions for doubtful accounts on accounts receivable	1,291	2,037	3,656
Stock-based compensation	33,368	32,998	31,708
Deferred income taxes	6,581	1,583	169
Depreciation	45,287	46,393	38,165
Amortization of intangibles	44,700	47,838	41,530
Building impairment		4,718	
Gain on sale of building	(1,377)		
In-process research and development and other non-cash charges	4,638	16,481	
Change in operating assets and liabilities, net of acquisitions:			
Increase in accounts receivable	(49,888)	(29,435)	(35,233)
Increase in inventories	(19,967)	(15,984)	(11,389)
(Increase) decrease in other current assets	(18,497)	(5,784	