



2013

■ ANNUAL REPORT



Waters

THE SCIENCE OF WHAT'S POSSIBLE.®

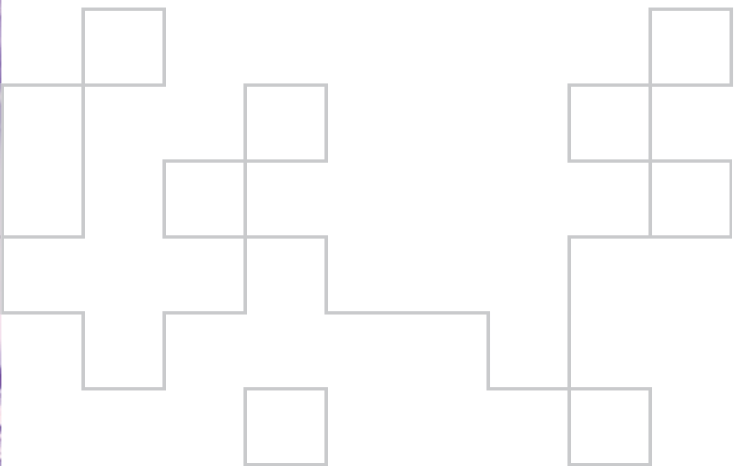


CUSTOMER SUCCESS IS OUR MISSION

Waters creates business advantages for laboratory-dependent organizations by delivering practical and sustainable scientific innovation to enable significant advancements in such areas as healthcare delivery, environmental management, food safety, water quality, consumer products, and high value-added chemicals.

Bringing keen understanding and deep experience to those responsible for laboratory infrastructure and performance, Waters helps customers make profound discoveries, optimize lab operations, deliver product performance, and ensure regulatory compliance.

Pioneering a connected portfolio of separation and analytical science, laboratory informatics, and mass spectrometry, Waters' technology breakthroughs and laboratory solutions provide an enduring platform for customer success.





2013

SHAREHOLDER LETTER

Dear Shareholders:

With a strong fourth quarter compared to slower conditions we saw earlier in the year, on balance, Waters Corporation grew in 2013 as originally anticipated and experienced signs of optimistic future trends. Some of these trends are fueled through our innovations, while some trends we are navigating as the industries and geographies we serve continue to evolve. In the face of what seems like a protracted period of economic uncertainty, our 2013 accomplishments reinforce the Company's strength, guided by our commitment to a consistent and focused business strategy.

Committed to bringing innovations to the market, the Company saw strong adoption rates for its high-end mass spectrometers from academic, biotechnology and industrial organizations. Additionally, a new detector introduced later in the year, contributed to driving additional growth in a broad range of core chromatography instruments. In addition, strategically targeted acquisitions in 2013, by our TA Instruments Division, are pushing the application range of our materials characterization platforms, opening new markets. Throughout the year, our recurring consumables and service revenues grew consistently, indicating increasing utilization of instrument systems in the installed base.

Foreign currency translation, primarily associated with a steep devaluation of the Japanese Yen, contributed to a significant year-over-year earnings per share growth modest for the year. However, we carefully managed expenses while adding field personnel to support customers in rapidly expanding regional markets, supported several new product introductions and ensured that we are poised for long-term growth.

Highlights from 2013 reinforce our position as leaders in chromatography, mass spectrometry, related chemistry consumables and informatics, as well as thermal analysis and rheology technologies.

COMMITMENT TO INNOVATION

With the commercialization of ACQUITY® UltraPerformance Liquid Chromatography (UPLC®), Waters invigorated the liquid phase separations market and provided scientific organizations with valued quality and speed advantages.


Last year, Waters introduced the new ACQUITY QDa™ Detector, the first mass detector to bring high-quality, mass spectral data to chromatographic separations. The realization of our long term vision, ACQUITY QDa blends chromatography and mass spectrometry

technologies together in a way that gives every analytical scientist access to mass spectral data regardless of their previous experience with mass spectrometry. This is a progressive leap forward in chromatography detection and key to further expanding the application reach of liquid chromatography.

Of course, our mass spectral technologies, including both tandem quadrupole and Q-ToF™ systems, continue to be a stronghold for Waters. The Xevo® TQ-S has quickly turned into a powerful and versatile bench-top system, providing new levels of sensitivity combined with high reliability and usability for scientists.

Never satisfied with our current levels of technology, Waters extended the impact of our research-grade ion-mobility Q-ToF with the introduction of the SYNAPT® G2-Si System at last year's ASMS annual meeting. The SYNAPT G2-Si now combines the unique power of Travelling Wave (T-Wave™) Ion Mobility Separations with new data acquisition and informatics technologies for the most challenging applications.

We are also committed to the expansion of Waters' workflow-specific UNIFI®-based systems that bring together UPLC/MS characterization. Now offering eight application-specific solutions, Waters recently unveiled a Glycan



Application Solution with UNIFI, a Forensic Toxicology Screening Application Solution with UNIFI, and a Natural Products Application Solution with UNIFI. Each new application features a proprietary, comprehensive library of relevant molecules.

POISED FOR THE LONG-TERM

Clearly, our commitment to bringing innovative solutions to address the world's most difficult scientific challenges is a core strategy to our long-term success. Our legacy as a first-mover company is well established, with credit to our technology development teams. Complementing a commitment to our innovation processes, Waters is well positioned for the long-term.

Reflective of our confidence in our Mass Spectrometry organization and the market opportunity, we recently completed construction of a state-of-the-art mass spectrometry headquarters in Wilmslow, England, just south of our current facilities in Manchester, U.K. The new facility features state-of-the-art customer demonstration laboratories, research and development capabilities, and an expanded manufacturing capacity.

Our new mass spectrometry facility was not the only achievement coming out of the United Kingdom in 2013 that has us looking to the future. In June, Imperial College London, in collaboration with Waters, opened the MRC-NIHR Phenome Centre. Examining approximately 100,000 blood and urine samples every year, the new center uses the analysis of phenomes – the biological results of people's genes and

environment – to help determine the causes of disease and indicate how treatments can be tailored for individual patients.

There is a revolution underway in health science that is improving patient care. Through advances in analytical technologies, researchers continue to push the limits of human biology and chemistry understanding. And that understanding is translating into powerful clinical applications which are affecting individual patients every day.

Through collaborations with global thought leaders, Waters is well positioned to play a critical role in this revolution. Alongside our partners and our innovation leadership, we are driving research trends, regulatory modernization and technology evolution. Waters is a preferred analytical science partner to make breakthrough discoveries and translate them into healthcare solutions.

This dedication to collaboration is not limited to healthcare or pharmaceutical markets, as our leadership in global food safety is unmatched in the industry. In 2013, Waters supported the opening of the world's second International Food Safety Training Laboratory with the Food Environment Research Agency in the U.K. Along with the IFSTL-JIFSAN at the University of Maryland, we are working towards a network of harmonized food safety training sites.

Our food safety leadership does not stop there. As founding members of the Global Food Safety Fund managed by the World Bank, Waters works alongside government leaders to build capacity

for global harmonized food testing. Enlisting a wide range of stakeholders in training programs, the fund will enable more growers, producers, and food safety officials to understand and utilize preventive controls – resulting in safer food for consumers and fewer safety incidents in food trade.

In closing, I believe Waters has a strong business model with a proven long-term strategy that is supported by our Board of Directors, our senior leadership teams, and our business organizations. Our commitment to the continuity of this proven business model has allowed us to both maintain market leadership and strong returns over the last twenty years. As we look toward the future and consider our capital allocation, research priorities and management development plans, we plan to proceed in ways to best ensure that the core tenets of our strategy will be preserved, and that our customers, employees and shareholders are best served.

To the nearly 6,000 Waters employees worldwide, I want to thank you for your daily dedication to fulfilling our mission of customer success. Your unwavering enthusiasm and focus are the most important reasons for our continued strength.

To our shareholders and customers the world over, we thank you for your support.

Best Regards,



Douglas A. Berthiaume
Chairman, President and
Chief Executive Officer

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

Form 10-K

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

For the fiscal year ended December 31, 2013

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

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

13-3668640

*(I.R.S. Employer
Identification No.)*

34 Maple Street

Milford, Massachusetts 01757

(Address, including zip code, of principal executive offices)

(508) 478-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.01 per share
New York Stock Exchange, Inc.

Series A Junior Participating Preferred 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 ☒ 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 ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 ☒ 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. ☒

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a 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 ☒

State the aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 29, 2013: \$8,523,967,000.

Indicate the number of shares outstanding of the registrant's common stock as of February 21, 2014: 85,176,112

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders are incorporated by reference in Part III.

WATERS CORPORATION AND SUBSIDIARIES

ANNUAL REPORT ON FORM 10-K

INDEX

<u>Item No.</u>		<u>Page</u>
PART I		
1.	Business	1
1A.	Risk Factors	11
1B.	Unresolved Staff Comments	16
2.	Properties	16
3.	Legal Proceedings	17
4.	Mine Safety Disclosures	17
	Executive Officers of the Registrant	17
PART II		
5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
6.	Selected Financial Data	21
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
7A.	Quantitative and Qualitative Disclosures About Market Risk	37
8.	Financial Statements and Supplementary Data	39
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	80
9A.	Controls and Procedures	80
9B.	Other Information	80
PART III		
10.	Directors, Executive Officers and Corporate Governance	81
11.	Executive Compensation	81
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	81
13.	Certain Relationships and Related Transactions, and Director Independence	82
14.	Principal Accountant Fees and Services	82
PART IV		
15.	Exhibits and Financial Statement Schedules	83
	Signatures	87

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 manufacturers’ instruments, and are typically purchased by customers as part of the instrument system.

The Company’s products are used by pharmaceutical, life science, 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, as well as 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. The Company’s thermal analysis, rheometry and calorimetry instruments are used in predicting the suitability of fine chemicals, pharmaceuticals, water, polymers and viscous liquids for uses 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 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.

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 the pharmaceutical and life science industries. In these markets, HPLC is used extensively to 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 international counterparts that mandate testing requiring HPLC instrumentation.

Traditionally, a typical HPLC system has consisted of five basic components: solvent delivery system, sample injector, separation column, detector and data acquisition unit. The solvent delivery system pumps solvents through the HPLC system, while the sample injector introduces samples into the solvent flow. The chromatography column then separates the sample into its components for analysis by the detector, which measures the presence and amount of the constituents. The data acquisition unit, usually referred to as the instrument's software or data system, then records and stores the information from the detector.

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 new 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 2011, the Company introduced the ACQUITY UPLC® I-Class instrument system. The ACQUITY UPLC I-Class provides a powerful solution to a critical need by successfully analyzing compounds that are limited in amount or availability amid a complex matrix. The ACQUITY UPLC I-Class system maximizes peak capacity to enhance MS sensitivity; it provides low sample carryover, complementing MS sensitivity and extending MS linear dynamic range; and it has been purposefully engineered for low dispersion. 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 UPC2, a user can separate, detect and quantify structural analogs, isomers, enantiomeric and diastereomeric 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 also introduced the ACQUITY® QDa™ Detector, which facilitates obtaining mass spectral measurements from chromatographic separations utilizing a compact and easy to operate detector module.

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 flows 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 the 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 UPLC columns to further extend the application range and performance of its UPLC offerings.

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. In addition, the Company provides tests to identify and quantify mycotoxins (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.

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 individual 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 efficacy of certain experiments.

Currently, the Company offers a wide range of MS instrument systems utilizing various combinations of quadrupole, ToF, ion mobility and magnetic sector 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 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. In 2013, the Company introduced the ACQUITY QDa Detector, a compact and easy to operate mass spectrometric module that further supports the broader usage of mass detection for routine LC applications. 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 2011, the Company introduced the SYNAPT® G2-S HDMS instrument system. The SYNAPT G2-S incorporates both high sensitivity Waters StepWave™ ion transfer optics and Triwave® ion mobility technologies along with a suite of new informatics tools to enhance qualitative and quantitative high resolution performance. In 2012, the Company introduced the Xevo® G2-S Q-ToF™ and Xevo® G2-S ToF mass spectrometers, bringing StepWave ion technology to its bench-top time-of-flight mass spectrometers. In 2013, the Company introduced the SYNAPT G2-Si, 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.

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 manufacturers’ instruments. The Company recently introduced a new UNIFI® software platform. The UNIFI Scientific Information System is the culmination of a multi-year effort to substantially bring all of Waters’ preexisting, disparate 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 daily 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 July 2012, the Company acquired Blue Reference, Inc. (“Blue Reference”), a U.S.-based developer and distributor of software products used for the real-time mining and analysis of multiple-application scientific databases, for \$14 million in cash. The Company has integrated the Blue Reference technology into software product platforms to further differentiate its offerings by providing customers with a more efficient scientific information assessment process, where there is an ongoing need for immediacy and interactivity of multiple scientific databases.

In August 2013, the Company acquired Nonlinear Dynamics Ltd. (“Nonlinear Dynamics”), a developer of proteomics and metabolomics software, for approximately \$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. The Company will integrate the Nonlinear Dynamics technology into current and future software product platforms.

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 the 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 25% 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.

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 and rheometry instruments are heavily used in material testing laboratories and, in many cases, provide information useful in predicting the suitability of fine chemicals, polymers and viscous liquids for 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 includes 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 unmatched measurement performance in the fields of differential scanning calorimetry and rheometry.

In July 2011, the Company acquired the net assets of Anter Corporation (“Anter”), a manufacturer of thermal analyzers used to measure thermal expansion and shrinkage, thermal conductivity and resistivity, thermal diffusivity and specific heat capacity of a wide range of materials, especially materials used in high temperature applications, for \$11 million in cash. Anter systems provide critical information to scientists that develop and characterize ceramics, metals and glasses for use in a wide range of industries, including electronics, energy and aerospace.

In January 2012, the Company acquired Baehr Thermoanalyse GmbH (“Baehr”), a German manufacturer of a wide range of thermal analyzers, for \$12 million in cash, including the assumption of \$1 million of debt. Key products developed by Baehr include horizontal, optical and quenching dilatometer systems that measure thermal expansion to high temperatures with high precision, high temperature viscometers, and high temperature TGA/DTA systems. Baehr systems provide critical information to researchers that develop materials for use in a wide range of industries, including electronics, energy, automotive, and aerospace.

In July 2013, the Company acquired Scarabaeus Mess-und Produktionstechnik GmbH (“Scarabaeus”), a manufacturer of rheometers for the rubber and elastomer markets, for approximately \$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 materials technology.

In December 2013, the Company acquired Expert Systems Solutions S.r.l. (“ESS”), a manufacturer of advanced thermal analysis instruments, for approximately \$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 approximately \$12 million in cash. LaserComp’s FOX line of durable thermal conductivity test instruments is used by many of the world’s leading insulation manufacturers.

In January 2014, the Company acquired ULSP B.V. (“ULSP”), a manufacturer of solutions for ultra low temperature applications, for approximately \$3 million in cash. ULSP’s core business is the manufacturing and servicing of high quality low temperature coolers for thermal analysis and rheology applications.

TA Service

Similar to the Waters Division, the servicing and support of TA’s instruments is an important source of revenue and represents approximately 25% of sales for the TA Division. TA sells, supports and services TA’s product offerings through its headquarters in New Castle, Delaware. TA operates independently from the Waters Division, though most 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 leading universities and governmental agencies worldwide. The Company’s technical support staff works closely with its customers in developing and implementing applications that meet their full range of analytical requirements. During 2013, 52% of the Company’s sales were to pharmaceutical accounts, 33% to other industrial accounts and 15% 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 2013, 2012 and 2011, 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 forces, the Company serves its customer base with 93 sales offices throughout the world as of December 31, 2013 and approximately 3,000 field representatives in 2013, 2012 and 2011. 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, 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 can 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 Cheshire, England, Manchester, England, Wilmslow, England and Wexford, Ireland. In early 2014, the Company completed the construction of its new facility in Wilmslow, England and is in the process of consolidating and moving its Cheshire and Manchester facilities to this new location. Certain components or modules of the Company's MS instruments are manufactured 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, Saugus, MA, Lindon, Utah, Huellhorst, Germany, Wetzlar, Germany and Modena, Italy 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. These rules are likely to 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.

Research and Development

The Company maintains an active research and development program focused on the development and commercialization of products that both complement and update its existing product offering. The Company's research and development expenditures for 2013, 2012 and 2011 were \$101 million, \$96 million and \$92 million, respectively. Nearly all of the Company's current LC products are 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, 2013, 2012 and 2011, there were 824, 777 and 741 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 assurances 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 6,000, 5,900 and 5,700 employees at December 31, 2013, 2012 and 2011, respectively, with approximately 43% 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 manufacturers 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., Anton-Paar and General Electric Company.

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 reproducibility, reputation, performance and, to a lesser extent, price. The Company's principal competitors for consumable products include: Phenomenex, Inc., Sigma Aldrich, 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.

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.

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 statements regarding, among other items, anticipated trends or growth in the Company's business, including, but not limited to, development of products by acquired businesses; the growth rate of sales and research and development expenses; the impact of new product launches and the associated costs, such as the amortization expense related to UNIFI; geographic sales mix of business; anticipated expenses, including interest expense, capitalized software costs and effective tax rates; the impact of foreign currency translation on financial results; 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", "would", "intends", "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:

- The risks inherent in succession planning, as the Company's chief executive officer has announced his intention to retire by the end of 2015 and the Company's former chief financial officer has transitioned to a reduced workload and resigned as the Company's chief financial officer as of February 1, 2014.
- Current global economic, sovereign and political conditions and uncertainties, particularly regarding the European debt crisis and the overall stability of the Euro and its suitability as a single currency; 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; 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 and ability to obtain alternative sources for components and modules.
- 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.
- 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 or 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:

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 52% and 53% of the Company's net sales in 2013 and 2012, 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 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 manufacturers 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. 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 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 approximately \$1,323 million in debt and \$1,804 million in cash, cash equivalents and investments as of December 31, 2013. As of December 31, 2013, the Company also had the ability to borrow an additional \$483 million from its existing, committed credit facilities. Most 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 \$1,738 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 and (4) 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 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 Cheshire, England, Manchester, England, Wilmslow, 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. In early 2014, the Company completed the construction of its new facility in Wilmslow, England and is in the process of consolidating and moving its Cheshire and Manchester facilities to this new location. 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 Company's international operations may be negatively affected by foreign political and regulatory changes, related to either a specific country or a larger region. Currency and economic disruptions and foreign currency exchange rate fluctuations could have a material adverse effect on the Company's results of operations or financial condition.

Approximately 71% of the Company's net sales in both 2013 and 2012 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 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 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.

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 have an employment contract with the Company and there can be no assurance that such individuals will remain with the Company. In August 2013, the Company's chief executive officer announced his intention to retire as chief executive officer of the Company by the end 2015. In addition, the Company's former chief financial officer has transitioned to a reduced workload and resigned as the Company's chief financial officer as of February 1, 2014. 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.

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 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 statements 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.

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 Health and Safety 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. These rules are likely to 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.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

Waters operates 23 United States facilities and 78 international facilities, including field offices. In early 2014, the Company completed the construction of its new facility in Wilmslow, England and is in the process of consolidating and moving its Cheshire, England and Manchester, England facilities to this new location. This new facility will consolidate existing primary MS research, manufacturing and distribution locations and 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

<u>Location</u>	<u>Function (1)</u>	<u>Owned/Leased</u>
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
Saugus, MA	M, R, S, D, A	Leased
Taunton, MA	M, R	Owned
Nixa, MO	M, S, D, A	Leased
Pittsburgh, PA	M, R, S, D, A	Leased
Lindon, UT	M, R, S, D, A	Leased
Cheshire, England	M, R, D, A	Leased
Manchester, England	M, R, S, A	Leased
Wilmslow, England	M, R, S, D, A	Owned
St. Quentin, France	S, A	Leased
Huellhorst, Germany	M, R, S, D, A	Owned
Wetzlar, Germany	M, R, S, D, A	Leased
Wexford, Ireland	M, R, D, A	Owned
Modena, Italy	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

The Company operates and maintains 14 field offices in the United States and 64 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)

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

(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.

The Company has been engaged in ongoing patent litigation with Agilent Technologies GmbH ("Agilent") in Germany. In July 2005, Agilent brought an action against the Company alleging that certain features of the Alliance pump continued to infringe certain of its patents. In August 2006, following a trial in this action, the German court ruled that the Company did not infringe the patents. Agilent filed an appeal in this action. A hearing on this appeal was held in January 2008. The appeals court affirmed the finding of the trial court that the Company did not infringe and Agilent appealed this finding to the German Federal Court of Justice. In December 2012, Agilent won this appeal and the Company recorded a \$4 million provision for damages and fees estimated to be incurred in connection with this litigation.

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:

Douglas A. Berthiaume, 65, has served as Chairman of the Board of Directors of the Company since February 1996 and has served as Chief Executive Officer and a Director of the Company since August 1994. Mr. Berthiaume also served as President of the Company from August 1994 to January 2002. In March 2003,

Mr. Berthiaume once again became President of the Company. From 1990 to 1994, Mr. Berthiaume served as President of the Waters Chromatography Division of Millipore. Mr. Berthiaume is the Chairman of the Children's Hospital Trust Board and a Trustee of the Children's Hospital Medical Center and The University of Massachusetts Amherst Foundation. In August 2013, Mr. Berthiaume communicated his intention to retire as Chief Executive Officer of the Company by the end of 2015.

Arthur G. Caputo, 62, has been Executive Vice President since March 2003 and President of the Waters Division since January 2002. Previously, he was the Senior Vice President, Worldwide Sales and Marketing of the Company since August 1994. He joined Millipore in October 1977 and held a number of positions in sales. Previous roles include Senior Vice President and General Manager of Millipore's North American Business Operations responsible for establishing the Millipore North American Sales Subsidiary and General Manager of Waters' North American field sales, support and marketing functions.

Mark T. Beaudouin, 59, has been 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, 57, was elected by the Board of Directors of the Company to serve as the interim Chief Financial Officer, effective February 1, 2014. Mr. Cassis most recently served as Corporate Vice President of Worldwide Business Development and Investor Relations and has been with the Company for 33 years. Mr. Cassis has an extensive background in many financial, operational and technical areas of the Company 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.

Elizabeth B. Rae, 56, has been Vice President of Human Resources since October 2005 and Vice President of Worldwide Compensation and Benefits since January 2002. She 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.

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 22, 2014, the Company had 146 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, 2013, 2012 or 2011.

Securities Authorized for Issuance under Equity Compensation Plans

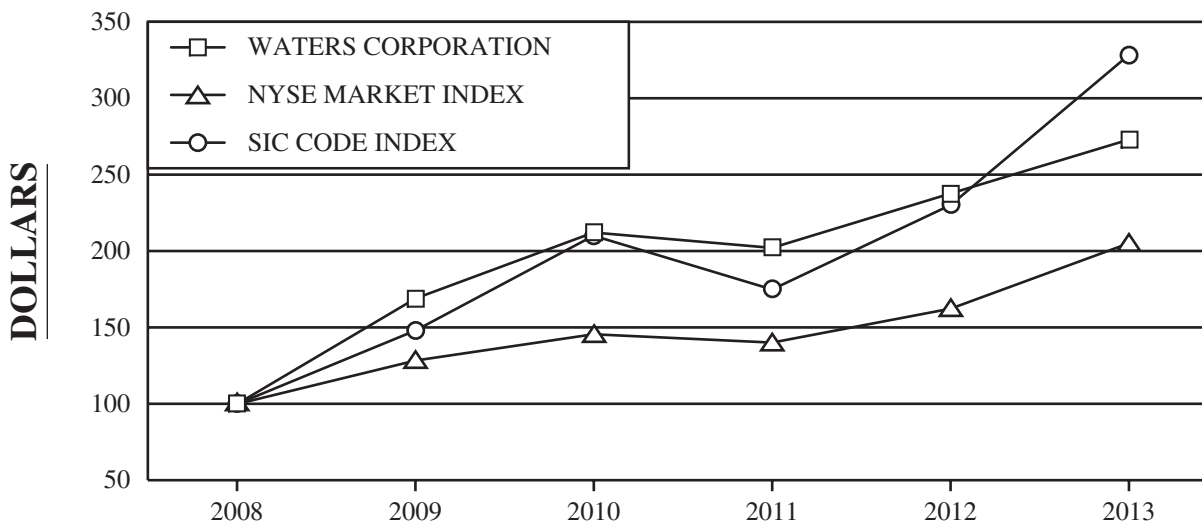
Equity compensation plan information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this document and should be considered an integral part of this Item 5.

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, 2008 (the last day of public trading of the Company's common stock in fiscal year 2008) through December 31, 2013 (the last day of public trading of the common stock in fiscal year 2013) 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, 2008
AMONG WATERS CORPORATION, NYSE MARKET INDEX AND SIC CODE 3826 INDEX –
LABORATORY ANALYTICAL INSTRUMENTS**



	2008	2009	2010	2011	2012	2013
WATERS CORPORATION	100.00	169.06	212.03	202.05	237.71	272.85
NYSE MARKET INDEX	100.00	128.28	145.46	139.87	162.23	204.87
SIC CODE INDEX	100.00	148.19	209.92	174.77	229.97	328.27

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:

<u>For the Quarter Ended</u>	<u>Price Range</u>	
	<u>High</u>	<u>Low</u>
March 31, 2012	\$ 94.03	\$73.71
June 30, 2012	\$ 93.99	\$76.15
September 29, 2012	\$ 85.24	\$74.66
December 31, 2012	\$ 89.33	\$78.89
March 30, 2013	\$ 94.96	\$86.22
June 29, 2013	\$101.90	\$88.24
September 28, 2013	\$107.73	\$98.16
December 31, 2013	\$106.48	\$95.25

Purchases of Equity Securities by the Issuer

The following table provides information about purchases by the Company during the three months ended December 31, 2013 of equity securities registered by the Company under the Exchange Act (in thousands, except per share data):

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs (1)</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs</u>
September 29 to October 26, 2013	—	\$ —	—	\$423,166
October 27 to November 23, 2013	535	\$100.81	535	\$369,238
November 24 to December 31, 2013	220	\$ 97.50	220	\$347,788
Total	<u>755</u>	\$ 99.85	<u>755</u>	\$347,788

- (1) The Company purchased an aggregate of 3.1 million shares of its outstanding common stock in 2013 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.

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 2013, 2012, 2011, 2010 and 2009. The Company's financial statements as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013 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	2013	2012	2011	2010	2009
STATEMENT OF OPERATIONS DATA:					
Net sales	\$1,904,218	\$1,843,641	\$1,851,184	\$1,643,371	\$1,498,700
Income from operations before income taxes	\$ 490,105	\$ 487,625	\$ 509,252	\$ 437,863	\$ 386,652
Net income	\$ 450,003	\$ 461,443	\$ 432,968	\$ 381,763	\$ 323,313
Net income per basic common share	\$ 5.27	\$ 5.25	\$ 4.77	\$ 4.13	\$ 3.37
Weighted-average number of basic common shares ...	85,426	87,841	90,833	92,385	95,797
Net income per diluted common share	\$ 5.20	\$ 5.19	\$ 4.69	\$ 4.06	\$ 3.34
Weighted-average number of diluted common shares and equivalents	86,546	88,979	92,325	94,057	96,862
BALANCE SHEET AND OTHER DATA:					
Cash, cash equivalents and investments	\$1,803,670	\$1,539,025	\$1,281,351	\$ 946,419	\$ 630,257
Working capital, including current maturities of debt	\$2,068,723	\$1,753,484	\$1,340,241	\$1,200,791	\$ 777,808
Total assets	\$3,582,629	\$3,168,150	\$2,723,234	\$2,327,670	\$1,907,931
Long-term debt	\$1,190,000	\$1,045,000	\$ 700,000	\$ 700,000	\$ 500,000
Stockholders' equity	\$1,763,173	\$1,467,357	\$1,226,578	\$1,068,797	\$ 848,949
Employees	5,965	5,860	5,672	5,381	5,216

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

The Company has two operating segments: the Waters Division and the 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 pharmaceutical, life science, 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 of fine chemicals, pharmaceuticals, water, polymers 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, 2013, 2012 and 2011:

	Year Ended December 31,			% change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Product sales	\$1,312,503	\$1,280,507	\$1,322,136	2%	(3%)
Service sales	591,715	563,134	529,048	5%	6%
Total net sales	1,904,218	1,843,641	1,851,184	3%	—
Total cost of sales	783,456	737,614	730,493	6%	1%
Gross profit	1,120,762	1,106,027	1,120,691	1%	(1%)
Gross profit as a % of sales	58.9%	60.0%	60.5%		
Selling and administrative expenses	492,965	477,270	490,011	3%	(3%)
Research and development expenses	100,536	96,004	92,347	5%	4%
Purchased intangibles amortization	9,918	13,829	9,733	(28%)	42%
Litigation provisions	—	7,434	—	(100%)	—
Operating income	517,343	511,490	528,600	1%	(3%)
Operating income as a % of sales	27.2%	27.7%	28.6%		
Other expense	(1,575)	—	—		
Interest expense, net	(25,663)	(23,865)	(19,348)	8%	23%
Income from operations before income taxes	490,105	487,625	509,252	1%	(4%)
Provision for income taxes	40,102	26,182	76,284	53%	(66%)
Net income	\$ 450,003	\$ 461,443	\$ 432,968	(2%)	7%
Net income per diluted common share	\$ 5.20	\$ 5.19	\$ 4.69	—	11%

Sales increased 3% in 2013 as compared to 2012, with combined sales of chemistry consumables and services growing 4% and instrument system sales growing 2%. Instrument systems sales grew in 2013, as compared to the decline in 2012, as a result of increased demand in high-end mass spectrometry, core chromatography and TA instrument systems. In addition, instrument system sales benefited in 2013 from the introduction of the new ACQUITY® UPC²® system, ACQUITY® Advanced Polymer Chromatography® (“APC™”) system and ACQUITY® QDa™ Detector. The effect of foreign currency translation negatively impacted 2013 sales by 2% across all products and services, primarily due to a 22% weakening of the Japanese yen as compared to the U.S. dollar during 2013 as compared to 2012. Acquisitions had an insignificant impact on both 2013 and 2012 sales.

Sales were flat in 2012 as compared to 2011, as a 4% increase in combined sales of chemistry consumables and services was offset by a 4% decrease in instrument system sales. The decline in instrument system sales in 2012 was generally attributable to timing of capital spending by our customers across all regions, except China. The effect of foreign currency translation negatively impacted sales by 2% in 2012 and increased sales 3% in 2011.

Sales to pharmaceutical customers grew 1% in both 2013 and 2012. Combined sales to industrial and environmental customers increased 6% in 2013 and decreased 2% in 2012. Combined global sales to governmental and academic customers increased 8% in 2013 and decreased 4% in 2012. The increases in sales in 2013 were primarily due to higher customer demand for instrument systems. The increase in sales to pharmaceutical customers in 2012 was primarily a result of increased spending on chemistry consumables and services, while the decreased sales to other customers in 2012 were primarily attributable to timing of capital spending by our customers as a result of uncertain global economic conditions and the weakening of the Euro and Indian rupee.

The 1% increase in operating income in 2013 as compared to 2012 was primarily due to the increase in sales volume offset by the negative effects of foreign currency translation, which decreased 2013 operating profit by approximately \$27 million, and the increase in amortization expense from the UNIFI® software. In addition, the comparability of 2013 operating income with 2012 operating income was impacted by the 2012 one-time litigation provisions and purchased intangible amortization expense related to the discontinuance of a product trade name intangible asset.

The decrease in operating income in 2012 as compared to 2011 was primarily due to one-time charges included in purchased intangibles amortization and litigation provisions, and the effects of foreign currency translation. Foreign currency translation decreased 2012 operating profit by approximately \$14 million and increased 2011 operating profit by approximately \$26 million.

Net income per diluted share was primarily impacted by the following factors in 2013, 2012 and 2011:

- Foreign currency translation decreased net income per diluted share by \$0.27 in 2013 and \$0.14 in 2012, and added \$0.24 to net income per diluted share in 2011.
- 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.
- In 2012, the Company refinanced certain of its inter-company debt arrangements, which enabled the Company to record a \$36 million tax benefit related to the recognition of a deferred tax asset associated with a non-U.S. net operating loss carryforward. In 2012, the Company also recorded a \$6 million tax benefit related to tax audit settlements in the U.S. These tax benefits added \$0.48 per diluted share in 2012.
- The impact of lower weighted-average shares outstanding resulting from the Company’s share repurchase program, offset by the incremental interest expense on borrowings to repurchase those shares, increased net income per diluted share \$0.11, \$0.14 and \$0.01 in 2013, 2012 and 2011, respectively. The Company plans to continue the share repurchase program in 2014.

Net cash provided by operating activities was \$485 million, \$449 million and \$497 million in 2013, 2012 and 2011, respectively. The \$36 million increase in operating cash flow in 2013 when compared to 2012 was primarily a result of the timing of cash receipts from customers, which improved days-sales-outstanding (“DSO”) by 2 days at December 31, 2013 as compared to December 31, 2012, and the timing of payments to vendors. The \$48 million decrease in operating cash flow in 2012 when compared to 2011 was primarily a result of the timing of cash receipts from customers, payments in 2012 of amounts earned under the Company’s 2011 management incentive plans, higher U.S. tax payments and a \$3 million litigation payment.

Within cash flows used in investing activities, capital expenditures related to property, plant, equipment and software capitalization were \$118 million, \$105 million and \$85 million in 2013, 2012 and 2011, respectively. Capital expenditures in 2013, 2012 and 2011 include multi-year construction projects to accommodate future growth. The construction of the new \$78 million research, manufacturing and distribution facility in Wilmslow, England was completed in early 2014. The Company expects to incur moving costs, as well as duplicate facility costs for a period of time, in 2014 as the Company exits and sells the existing facilities. The Company believes it has planned this major relocation of its operations in the U.K. so that the Company’s operations will not be disrupted; however, there can be no assurances that the Company’s operations and financial results will not be impacted in the near future as a result of this move.

In January 2014, the Company acquired ULSP B.V. for approximately \$3 million in cash. In 2013, the Company acquired Scarabaeus Mess-und Produktionstechnik GmbH, Nonlinear Dynamics Ltd., Expert Systems Solutions S.r.l. and LaserComp Inc. for a total of \$41 million, net of cash acquired. These acquisitions are expected to add approximately \$14 million to the Company’s sales in 2014 and be accretive to earnings per

share. In 2012, the Company acquired its Israeli sales and service distributor, Baehr Thermoanalyse GmbH and Blue Reference, Inc. for a total of \$31 million, net of cash acquired and including the assumption of \$1 million of debt. The Company acquired Anter Corporation for \$11 million in cash in 2011. The Company continues to evaluate the acquisition of businesses, product lines and technologies to augment the Waters and TA operating divisions.

Within cash flows used in financing activities, the Company received \$69 million, \$29 million and \$60 million of proceeds from stock plans in 2013, 2012 and 2011, respectively. Fluctuations in these amounts were primarily attributable to changes in the Company's stock price and the expiration of stock option grants. In May 2012, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a two-year period. During 2013, 2012 and 2011, the Company repurchased \$295 million, \$290 million and \$364 million of the Company's outstanding common stock, respectively, under the May 2012 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 June 2013, the Company entered into a new credit agreement (the "2013 Credit Agreement") that provides for a \$1.1 billion revolving facility and a \$300 million term loan facility. The revolving facility and term loan facility both mature on June 25, 2018 and require no scheduled prepayments before that date. The Company used the proceeds from the 2013 Credit Agreement to repay the outstanding amounts under the Company's existing multi-borrower credit agreement dated July 2011 (the "2011 Credit Agreement"), which was terminated early without penalty.

Results of Operations

Sales by Geography

Geographic sales information is presented below for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,			% change	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Net Sales:					
United States	\$ 557,734	\$ 531,912	\$ 530,606	5%	—
Europe	573,786	549,341	574,770	4%	(4%)
Asia:					
China	240,535	212,701	175,409	13%	21%
Japan	170,115	207,340	211,893	(18%)	(2%)
Asia Other	216,229	215,612	222,082	—	(3%)
Total Asia	626,879	635,653	609,384	(1%)	4%
Other	145,819	126,735	136,424	15%	(7%)
Total net sales	<u>\$1,904,218</u>	<u>\$1,843,641</u>	<u>\$1,851,184</u>	<u>3%</u>	<u>—</u>

In 2013, sales increased in all major regions on stronger customer demand for instrument systems, except for Japan, where the effect of foreign currency translation decreased sales 18%. The increase in sales in the U.S. in 2013 was driven by industrial and environmental customers, while the increase in Europe was driven by governmental and academic customers. China's 2013 sales growth was broad-based across all product and customer classes, while sales in the rest of Asia were flat. The increase in the rest of the world's sales in 2013 was broad-based across all product and customer classes.

In 2012, sales were lower in all major regions on weak customer spending from weak economic conditions, except for the U.S., which remained flat, and Asia, where China's sales grew 21% as compared to 2011. The decline in Europe's sales in 2012 was due to a 6% negative effect of foreign currency translation. The decline in the rest of the world's sales in 2012 was due to lower demand of instrument systems from pharmaceutical, governmental and academic customers.

Waters Division Net Sales

Net sales for the Waters Division's products and services are as follows for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,						% change	
	2013	% of Total	2012	% of Total	2011	% of Total	2013 vs. 2012	2012 vs. 2011
Waters instrument systems	\$ 840,608	50%	\$ 828,458	51%	\$ 878,367	53%	1%	(6%)
Chemistry	304,130	18%	294,787	18%	292,506	18%	3%	1%
Total Waters Division product sales	1,144,738		1,123,245		1,170,873		2%	(4%)
Waters service	532,323	32%	509,412	31%	480,553	29%	4%	6%
Total Waters Division net sales	<u>\$1,677,061</u>	<u>100%</u>	<u>\$1,632,657</u>	<u>100%</u>	<u>\$1,651,426</u>	<u>100%</u>	<u>3%</u>	<u>(1%)</u>

Waters instrument system sales (LC and MS technology-based) increased in 2013, which was primarily attributable to higher sales of UPLC®-mass spectrometry systems, driven by Xevo® and SYNAPT® instrument systems. In addition, instrument system sales benefited in 2013 from the introduction of the new ACQUITY UPC² system, ACQUITY APC system and the recent introduction of the ACQUITY QDa Detector. The decrease in instrument systems sales in 2012 was primarily attributable to the timing of capital spending by our customers as a result of uncertain global economic conditions and the weakening of both the Euro, which impacted sales due to the effect of foreign currency translation, and Indian rupee, which effectively increased the price of the systems for certain customers. Chemistry consumables sales increased in both 2013 and 2012 on the uptake in ACQUITY columns, as well as the new CORTECS™ columns introduced in 2013. Waters Division service sales increased in both 2013 and 2012 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 2% in both 2013 and 2012. The Nonlinear Dynamics acquisition had an insignificant impact on the Waters Division sales in 2013.

In 2013, Waters Division sales increased 4% in both the U.S. and Europe, while sales decreased 2% in Asia and increased 12% in the rest of the world. Waters Division sales in China increased 13% in 2013 across all product and customer classes. The 2013 growth in China was offset by an 18% decrease in sales in Japan, which was largely due to a 22% weakening of the Japanese yen as compared to the U.S. dollar. The increase in Waters Division sales in the rest of the world was broad-based across most product and customer classes.

In 2012, Waters Division sales increased 3% in Asia, while sales were flat in the U.S. and decreased 5% in Europe and 6% in the rest of the world. Asia experienced double-digit sales growth rates in China in 2012, particularly in the pharmaceutical, governmental, industrial and chemical analysis markets. The 2012 growth in China was offset by a decline in capital expenditures by customers in India, mostly due to lower HPLC instrument systems sales as a weaker Indian rupee increased the price of these systems, which are priced in U.S. dollars. The decline in Europe's sales was due to a 6% negative effect of foreign currency translation.

TA Division Net Sales

Net sales for the TA Division's products and services are as follows for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,						% change	
	2013	% of Total	2012	% of Total	2011	% of Total	2013 vs. 2012	2012 vs. 2011
TA instrument systems	\$167,765	74%	\$157,262	75%	\$151,263	76%	7%	4%
TA service	59,392	26%	53,722	25%	48,495	24%	11%	11%
Total TA net sales	<u>\$227,157</u>	<u>100%</u>	<u>\$210,984</u>	<u>100%</u>	<u>\$199,758</u>	<u>100%</u>	<u>8%</u>	<u>6%</u>

The increase in TA instrument system sales in both 2013 and 2012 was primarily a result of higher demand for instrument systems from TA's industrial customers, as well as revenue associated with the shipment of the new Discovery instrument systems. TA service sales increased in both 2013 and 2012 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 1% in both 2013 and 2012. Recent acquisitions added approximately 1% to TA's sales in 2013 and 4% in 2012. TA's 2013 sales increased in each territory, except for Japan, where the effects of foreign currency translation negatively impacted sales due to the weakening of the Japanese yen as compared to the U.S. dollar. TA's 2012 sales increased in the U.S., Europe and Asia, while sales to the rest of the world declined.

Gross Profit

Gross profit increased 1% in 2013 as compared to 2012, primarily due to changes in the product mix of instrument systems and higher manufacturing leverage from higher sales volumes being offset by the negative effects of foreign currency translation and the increase in amortization expense from the UNIFI software. Gross profit decreased 1% in 2012 as compared to 2011, due to changes in the product mix of instrument systems and the negative effects of foreign currency translation. Gross profit as a percentage of sales was 58.9%, 60.0% and 60.5% for 2013, 2012 and 2011, respectively.

Gross profit as a percentage of sales is affected by many factors, including, but not limited to, product mix, foreign currency translation, price and product costs of instrument systems and associated software platforms. The cost and amortization of capitalized software development costs for the Company's UNIFI product may continue to affect the Company's product mix and associated gross profit in 2014. The Company also expects that the impact of foreign currency translation should have a minimal effect on gross profit in 2014, based on current exchange rates.

Selling and Administrative Expenses

Selling and administrative expenses increased 3% in 2013 and decreased 3% in 2012. 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. The decrease in selling and administrative expenses in 2012 was a result of the favorable impact of foreign currency translation and lower incentive compensation in 2012 as compared to 2011. As a percentage of net sales, selling and administrative expenses were 25.9% for 2013 and 2012 compared to 26.5% for 2011.

Research and Development Expenses

Research and development expenses increased 5% and 4% in 2013 and 2012, respectively, primarily due to additional headcount and timing of development costs incurred on new products.

Purchased Intangibles Amortization

In 2012, the Company incurred a one-time \$4 million charge to purchased intangibles amortization expense related to the discontinuance of a product trade name intangible asset.

Litigation Provision

The Company recorded \$7 million of litigation provisions in 2012 for damages and fees estimated to be incurred in connection with complaints filed against the Company relating to patent infringement lawsuits. The Company paid \$3 million of these litigation provisions in 2012.

Interest Expense, Net

The increases in net interest expense in 2013 and 2012 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%, 23.25% and 0%, respectively, as of December 31, 2013. The Company has a contractual tax rate in Singapore of 0% through March 2016, based upon achievement of contractual milestones that the Company expects to continue 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 year.

The Company's effective tax rates were 8.2%, 5.4% and 15.0% in 2013, 2012 and 2011, respectively. 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 is included in the 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 income tax provision for 2012 included a \$36 million tax benefit related to the Company's refinancing of certain of its inter-company debt arrangements, which enabled the Company to recognize a deferred tax asset associated with a non-U.S. net operating loss carryforward. In 2012, the Company also recorded a \$6 million tax benefit related to tax audit settlements in the U.S. These tax benefits decreased the Company's effective tax rate by 8.6 percentage points in 2012. Included in the income tax provision for 2011 is a \$2 million tax benefit related to the reversal of a reserve for interest related to a tax audit settlement in the United Kingdom. This tax benefit decreased the Company's effective tax rate by 0.3 percentage points in 2011. The remaining differences between the effective tax rates for 2013, 2012 and 2011 were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net income	\$ 450,003	\$ 461,443	\$ 432,968
Depreciation and amortization	79,695	68,831	66,387
Stock-based compensation	31,708	29,183	27,579
Deferred income taxes	169	(52,219)	(5,824)
Change in accounts receivable	(35,233)	(39,836)	(12,528)
Change in inventories	(11,389)	(10,930)	(8,707)
Change in accounts payable and other current liabilities	(28,127)	563	(11,845)
Change in deferred revenue and customer advances	8,512	11,005	2,630
Other changes	(10,462)	(18,760)	6,714
Net cash provided by operating activities	484,876	449,280	497,374
Net cash used in investing activities	(464,729)	(296,394)	(355,976)
Net cash used in financing activities	(64,588)	(66,535)	(60,422)
Effect of exchange rate changes on cash and cash equivalents	4,202	10,694	(5,484)
(Decrease) increase in cash and cash equivalents	\$ (40,239)	\$ 97,045	\$ 75,492

Cash Flow from Operating Activities

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net cash provided by operating activities was \$485 million and \$449 million in 2013 and 2012, respectively. The changes within net cash provided by operating activities in 2013 as compared to 2012 include the following significant changes in the sources and uses of net cash provided by operating activities, aside from the increase in net income:

- The change in accounts receivable in 2013 compared to 2012 was primarily attributable to timing of payments made by customers and timing of sales in 2013 as compared to 2012. DSO was 69 days at December 31, 2013 and 71 days at December 31, 2012.
- The 2013 increase in inventory levels can be attributed to the anticipation of the facility relocation in the U.K.
- The 2013 change in accounts payable and other current liabilities was impacted by a \$31 million decrease in accrued income taxes, due to the resolution of pending audits, as well as an increase in accounts payable and accrued commissions and management incentive compensation.
- Net cash provided from deferred revenue and customer advances in both 2013 and 2012 was a result of an increase in new service contracts, as well as a higher installed base of customers renewing annual service contracts.
- Other changes were attributable to variation in the timing of various provisions, expenditures and accruals in other current assets, other assets and other liabilities.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash provided by operating activities was \$449 million and \$497 million in 2012 and 2011, respectively. The changes within net cash provided by operating activities in 2012 as compared to 2011 include the following significant changes in the sources and uses of net cash provided by operating activities, aside from the increase in net income:

- The increases in net income and deferred income taxes in 2012 were primarily attributable to a \$36 million tax benefit related to the Company's refinancing of certain of its inter-company debt arrangements, which enabled the Company to recognize a deferred tax asset associated with a non-U.S. net operating loss carryforward.

- The change in accounts receivable in 2012 compared to 2011 was primarily attributable to timing of payments made by customers and timing of sales in 2012 as compared to 2011. DSO was 71 days at December 31, 2012 and 64 days at December 31, 2011.
- The 2012 change in inventories was primarily attributable to the increase in inventory related to new products expected to be launched in 2013.
- The 2012 change in accounts payable and other current liabilities was impacted by an increase in accrued income taxes, which was offset by higher U.S. tax payments. In addition, accounts payable and other current liabilities was impacted by lower levels of incentive compensation earned in 2012 as compared to 2011, as well as the payment of the 2011 incentive compensation in 2012 and timing of payments to vendors.
- Net cash provided from deferred revenue and customer advances in both 2012 and 2011 was a result of an increase in new service contracts, as well as a higher installed base of customers renewing annual service contracts.
- Other changes were attributable to variation in the timing of various provisions, expenditures and accruals in other current assets, other assets and other liabilities.

Cash Used in Investing Activities

Net cash used in investing activities totaled \$465 million, \$296 million and \$356 million in 2013, 2012 and 2011, respectively. Additions to fixed assets and capitalized software were \$118 million, \$105 million and \$85 million in 2013, 2012 and 2011, respectively. Capital expenditures in 2013, 2012 and 2011 included multi-year construction projects. The construction of the new research, manufacturing and distribution facility in Wilmslow, England was completed in early 2014 and the Company is in the process of consolidating and moving its Cheshire and Manchester facilities to this new location. As of December 31, 2013, the Company has spent a total of \$78 million related to this project.

During 2013, 2012 and 2011, the Company purchased \$3.0 billion, \$1.8 billion and \$1.7 billion of investments, respectively, while \$2.7 billion, \$1.7 billion and \$1.5 billion of investments matured, respectively. Business acquisitions, net of cash acquired, were \$41 million, \$31 million and \$11 million during 2013, 2012 and 2011, respectively.

Cash Used in Financing Activities

In June 2013, the Company entered into the 2013 Credit Agreement that provides for a \$1.1 billion revolving facility and a \$300 million term loan facility. The revolving facility and term loan facility both mature on June 25, 2018 and require no scheduled prepayments before that date. The Company used \$860 million of the proceeds from the 2013 Credit Agreement to repay the outstanding amounts under the 2011 Credit Agreement, which was terminated early and without penalty.

The interest rates applicable to the 2013 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 75 basis points and 112.5 basis points for adjusted LIBO rate loans. The facility fee on the 2013 Credit Agreement ranges between 12.5 basis points and 25 basis points. The 2013 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 2013 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, 2013, the Company was in compliance with all such covenants.

The Company issued and sold senior unsecured notes with a face value of \$200 million in 2011. Interest on the senior unsecured notes is payable semi-annually each year. 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. 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. As of December 31, 2013, the Company was in compliance with all such covenants.

During 2013, 2012 and 2011, the Company's net debt borrowings increased by \$146 million, \$186 million and \$225 million, respectively. As of December 31, 2013, the Company had a total of \$1,323 million in outstanding debt, which consisted of \$400 million in outstanding senior unsecured notes, \$300 million borrowed under a term loan facility under the 2013 Credit Agreement, \$615 million borrowed under revolving credit facility under the 2013 Credit Agreement and \$8 million borrowed under various other short-term lines of credit. At December 31, 2013, \$125 million of the outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheet due to the fact that the Company expects to utilize this portion of the revolving line of credit to fund its working capital needs within the next twelve months. It is the Company's intention to repay the short-term portions of the outstanding revolving line of credit balance during the subsequent twelve months following the respective period end date. The remaining \$490 million of the outstanding portions of the revolving facilities have been classified as long-term liabilities in the consolidated balance sheet, as no repayments are required prior to the maturity date in 2018 and this portion is not expected to be repaid within the next twelve months. As of December 31, 2013, the Company had a total amount available to borrow under existing credit agreements of \$483 million after outstanding letters of credit.

In May 2012, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a two-year period. During 2013, 2012 and 2011, the Company repurchased 3.1 million, 3.5 million and 4.5 million shares at a cost of \$295 million, \$290 million and \$364 million, respectively, under the May 2012 authorization and other previously announced programs. As of December 31, 2013, the Company had purchased an aggregate of 4.3 million shares at a cost of \$402 million under the May 2012 repurchase program, leaving \$348 million authorized for future repurchases. In addition, the Company repurchased \$6 million of common stock related to the vesting of restricted stock units during each of the years ended December 31, 2013, 2012 and 2011.

The Company received \$69 million, \$29 million and \$60 million of proceeds from the exercise of stock options and the purchase of shares pursuant to the Company's employee stock purchase plan in 2013, 2012 and 2011, respectively.

The Company had cash, cash equivalents and investments of \$1,804 million as of December 31, 2013. The majority of the Company's cash, cash equivalents and investments are generated from foreign operations, with \$1,738 million held by foreign subsidiaries at December 31, 2013. 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 facilities.

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, 2013 (in thousands):

	Payments Due by Year (1)							
	Total	2014	2015	2016	2017	2018	2019	After 2019
Notes payable and debt	\$ 133,346	\$133,346	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest on senior unsecured notes	65,516	15,205	11,768	10,465	10,205	7,656	6,985	3,232
Long-term debt	1,190,000	—	100,000	50,000	—	890,000	—	150,000
Operating leases	78,432	23,668	17,953	11,475	7,276	5,260	4,315	8,485
Total	<u>\$1,467,294</u>	<u>\$172,219</u>	<u>\$129,721</u>	<u>\$71,940</u>	<u>\$17,481</u>	<u>\$902,916</u>	<u>\$11,300</u>	<u>\$161,717</u>

- (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 2013 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 75 basis points and 112.5 basis points for adjusted LIBO rate loans. The facility fee on the 2013 Credit Agreement ranges between 12.5 basis points and 25 basis points. The 2013 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 2013 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, 2013, 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, 2013 (in thousands):

	Amount of Commitments Expiration Per Period							
	Total	2014	2015	2016	2017	2018	2019	After 2019
Letters of credit	\$1,513	\$1,513	\$—	\$—	\$—	\$—	\$—	\$—

The Company licenses certain technology and software from third parties. Future minimum license fees payable under existing license agreements as of December 31, 2013 are immaterial.

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. See Item 3, Legal Proceedings, of Part I of this Form 10-K.

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 2014, the Company expects to contribute approximately \$8 million to \$10 million to the Company's defined benefit plans.

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 return 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 those unrecognized tax benefits associated with those reporting positions for the time value of money. If all of the Company's unrecognized tax benefits accrued as of December 31, 2013 were to become recognizable in the future, the Company would record a total reduction of approximately \$25 million in its income tax provision.

The Company's uncertain tax positions are taken with respect to income tax return reporting periods beginning after December 31, 2007, which are the periods that generally remain open to income tax audit examination by income tax authorities. 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 audit 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. As of December 31, 2013, the Company expects to record additional reductions in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately \$6 million within the next twelve months due to 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.

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, 2013, the Company had current and long-term deferred revenue liabilities of \$128 million and \$21 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 revenues 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 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 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 is recognized as revenue.

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, 2013 was \$431 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, 2013 was recorded at its net realizable value of \$243 million, which is net of write-downs of \$18 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 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 \$239 million, \$325 million and \$350 million, respectively, as of December 31, 2013.

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, the 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.

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, 2013, the Company's warranty liability was \$13 million.

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 return 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 those unrecognized tax benefits associated with those tax reporting positions for the time value of money. At December 31, 2013, the Company had unrecognized tax benefits of \$25 million.

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.

With respect to the specific claims referenced in Item 3, Legal Proceedings, of Part I of this Form 10-K, management of the Company to date has been able to make this determination and thus has recorded charges with respect to those claims. As developments occur in these matters and additional information becomes available, management of the Company will reassess the probability of any losses and of their range, which may result in its recording additional charges, which could materially impact the Company's results of operations or financial position.

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 6.94% for its U.S. benefit plans and 2.40% 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 determined the discount rate based on the analysis of the Mercer Pension Discount Curve for high quality investments as of December 31, 2013 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, 2013, the Company determined the weighted-average discount rate to be 4.82% for the U.S. benefit plans and 3.29% 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.

As of December 31, 2013, 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	\$41	3.5
Restricted stock units	42	3.7
Restricted stock	<1	0.9
Total	<u>\$83</u>	3.6

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.

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, British pounds and Singapore dollars. 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.

Derivative Transactions

The Company records its derivative transactions in accordance with the accounting standards for derivative instruments and hedging activities, which establish the accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated balance sheets at fair value as either assets or liabilities. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings; ineffective portions of changes in fair value are recognized in earnings. In addition, disclosures required for derivative instruments and hedging activities include the Company's objectives for using derivative instruments, the level of derivative activity the Company engages in, as well as how derivative instruments and related hedged items affect the Company's financial position and performance.

The Company currently uses derivative instruments to manage exposures to foreign currency risks. The Company's objectives for holding derivatives are to minimize foreign currency risk using the most effective methods to eliminate or reduce the impact of foreign currency exposures. The Company documents all relationships between hedging instruments and hedged items and links all derivatives designated as fair value, cash flow or net investment hedges to specific assets and liabilities on the consolidated balance sheets or to specific forecasted transactions. In addition, the Company considers the impact of its counterparties' credit risk

on the fair value of the contracts as well as the ability of each party to execute under the contracts. The Company also assesses and documents, both at the hedges' inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows associated with the hedged items.

The Company enters into forward foreign exchange contracts, principally to hedge the impact of currency fluctuations on certain inter-company balances and short-term assets and liabilities. Principal hedged currencies include the Euro, Japanese yen, British pound and Singapore dollar. The periods of these forward contracts typically range from one to three months and have varying notional amounts, which are intended to be consistent with changes in the underlying exposures. Gains and losses on these forward contracts are recorded in cost of sales in the consolidated statements of operations. At December 31, 2013, 2012 and 2011, the Company held forward foreign exchange contracts with notional amounts totaling \$104 million, \$134 million and \$161 million, respectively.

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

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Other current assets	\$929	\$1,173
Other current liabilities	\$ 88	\$ 693

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

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Realized gains (losses) on closed contracts	\$8,666	\$4,186	\$(2,233)
Unrealized gains (losses) on open contracts	361	1,716	(1,035)
Cumulative net pre-tax gains (losses)	<u>\$9,027</u>	<u>\$5,902</u>	<u>\$(3,268)</u>

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, 2013 would decrease pre-tax earnings by approximately \$10 million.

The Company is exposed to the risk of interest rate fluctuations from the investments of cash generated from operations. The Company's cash equivalents represent highly liquid investments, with original maturities of 90 days or less, primarily in bank deposits, U.S. and U.K. treasury bill money market funds and commercial paper. Investments with longer maturities are classified as investments, and are held primarily in U.S. treasury bills, Canadian government U.S. dollar-denominated treasury bills and commercial paper, bank deposits and 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, 2013 and December 31, 2012, \$1,738 million out of \$1,804 million and \$1,489 million out of \$1,539 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, 2013, the Company has no holdings in auction rate securities or commercial paper issued by structured investment vehicles.

The Company's cash, cash equivalents and investments are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2013, the carrying value of the Company's cash and cash equivalents approximated fair value.

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 1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control — Integrated Framework 1992*, 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, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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, 2013 and December 31, 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in *Internal Control — Integrated Framework 1992* 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.

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 27, 2014

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 440,796	\$ 481,035
Investments	1,362,874	1,057,990
Accounts receivable, net	430,985	404,556
Inventories	242,800	229,565
Other current assets	78,800	84,580
Total current assets	2,556,255	2,257,726
Property, plant and equipment, net	324,932	273,279
Intangible assets, net	239,112	220,145
Goodwill	350,350	316,834
Other assets	111,980	100,166
Total assets	\$ 3,582,629	\$ 3,168,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and debt	\$ 133,346	\$ 132,781
Accounts payable	64,961	54,724
Accrued employee compensation	43,305	31,910
Deferred revenue and customer advances	128,056	121,470
Accrued income taxes	19,770	60,888
Accrued warranty	12,962	12,353
Other current liabilities	85,132	90,116
Total current liabilities	487,532	504,242
Long-term liabilities:		
Long-term debt	1,190,000	1,045,000
Long-term portion of retirement benefits	74,723	101,225
Long-term income tax liabilities	25,436	24,772
Other long-term liabilities	41,765	25,554
Total long-term liabilities	1,331,924	1,196,551
Total liabilities	1,819,456	1,700,793
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, 2013 and December 31, 2012	—	—
Common stock, par value \$0.01 per share, 400,000 shares authorized, 155,246 and 153,696 shares issued, 84,819 and 86,390 shares outstanding at December 31, 2013 and December 31, 2012, respectively	1,552	1,537
Additional paid-in capital	1,270,608	1,155,504
Retained earnings	3,962,893	3,512,890
Treasury stock, at cost, 70,427 and 67,306 shares at December 31, 2013 and December 31, 2012, respectively	(3,477,759)	(3,176,179)
Accumulated other comprehensive income (loss)	5,879	(26,395)
Total stockholders' equity	1,763,173	1,467,357
Total liabilities and stockholders' equity	\$ 3,582,629	\$ 3,168,150

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
Product sales	\$1,312,503	\$1,280,507	\$1,322,136
Service sales	591,715	563,134	529,048
Total net sales	1,904,218	1,843,641	1,851,184
Cost of product sales	526,721	501,660	506,073
Cost of service sales	256,735	235,954	224,420
Total cost of sales	783,456	737,614	730,493
Gross profit	1,120,762	1,106,027	1,120,691
Selling and administrative expenses	492,965	477,270	490,011
Research and development expenses	100,536	96,004	92,347
Purchased intangibles amortization	9,918	13,829	9,733
Litigation provisions (Note 10)	—	7,434	—
Operating income	517,343	511,490	528,600
Other expense (Note 3)	(1,575)	—	—
Interest expense	(30,050)	(28,073)	(21,971)
Interest income	4,387	4,208	2,623
Income from operations before income taxes	490,105	487,625	509,252
Provision for income taxes	40,102	26,182	76,284
Net income	\$ 450,003	\$ 461,443	\$ 432,968
Net income per basic common share	\$ 5.27	\$ 5.25	\$ 4.77
Weighted-average number of basic common shares	85,426	87,841	90,833
Net income per diluted common share	\$ 5.20	\$ 5.19	\$ 4.69
Weighted-average number of diluted common shares and equivalents ...	86,546	88,979	92,325

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net income	\$450,003	\$461,443	\$432,968
Other comprehensive income (loss):			
Foreign currency translation	11,843	17,279	(12,644)
Unrealized gains (losses) on investments before reclassifications	134	(27)	(1,604)
Amounts reclassified to other expense	1,575	—	—
Amounts reclassified to selling and administrative expenses	—	(968)	2,570
Unrealized gains (losses) on investments before income taxes	1,709	(995)	966
Income tax (expense) benefit	(639)	348	(339)
Unrealized gains (losses) on investments, net of tax	1,070	(647)	627
Retirement liability adjustment before reclassifications	27,888	(14,147)	(20,511)
Amounts reclassified to selling and administrative expenses	3,678	3,055	1,676
Retirement liability adjustment	31,566	(11,092)	(18,835)
Income tax (expense) benefit	(12,205)	4,120	6,592
Retirement liability adjustment, net of tax	19,361	(6,972)	(12,243)
Other comprehensive income (loss)	32,274	9,660	(24,260)
Comprehensive income	<u>\$482,277</u>	<u>\$471,103</u>	<u>\$408,708</u>

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 450,003	\$ 461,443	\$ 432,968
Adjustments to reconcile net income to net cash provided by operating activities:			
Provisions for doubtful accounts on accounts receivable	3,656	2,256	3,265
Stock-based compensation	31,708	29,183	27,579
Deferred income taxes	169	(52,219)	(5,824)
Depreciation	38,165	37,422	36,531
Amortization of intangibles	41,530	31,409	29,856
Change in operating assets and liabilities, net of acquisitions:			
Increase in accounts receivable	(35,233)	(39,836)	(12,528)
Increase in inventories	(11,389)	(10,930)	(8,707)
Decrease (increase) in other current assets	5,033	(7,136)	4,309
(Increase) decrease in other assets	(11,467)	1,473	(12,071)
(Decrease) increase in accounts payable and other current liabilities	(28,127)	563	(11,845)
Increase in deferred revenue and customer advances	8,512	11,005	2,630
(Decrease) increase in other liabilities	(7,684)	(15,353)	11,211
Net cash provided by operating activities	484,876	449,280	497,374
Cash flows from investing activities:			
Additions to property, plant, equipment and software capitalization	(118,450)	(104,749)	(85,436)
Business acquisitions, net of cash acquired	(41,395)	(31,016)	(11,100)
Purchase of investments	(2,972,116)	(1,815,988)	(1,749,161)
Maturities and sales of investments	2,667,232	1,655,359	1,489,721
Net cash used in investing activities	(464,729)	(296,394)	(355,976)
Cash flows from financing activities:			
Proceeds from debt issuances	1,032,209	218,324	598,528
Payments on debt	(886,644)	(32,107)	(373,751)
Payments of debt issuance costs	(2,039)	(497)	(4,523)
Proceeds from stock plans	68,958	28,869	60,153
Purchase of treasury shares	(301,580)	(295,878)	(370,835)
Excess tax benefit related to stock option plans	15,842	10,568	32,239
Proceeds from (payments for) derivative contracts	8,666	4,186	(2,233)
Net cash used in financing activities	(64,588)	(66,535)	(60,422)
Effect of exchange rate changes on cash and cash equivalents	4,202	10,694	(5,484)
(Decrease) increase in cash and cash equivalents	(40,239)	97,045	75,492
Cash and cash equivalents at beginning of period	481,035	383,990	308,498
Cash and cash equivalents at end of period	<u>\$ 440,796</u>	<u>\$ 481,035</u>	<u>\$ 383,990</u>
Supplemental cash flow information:			
Income taxes paid	\$ 55,928	\$ 59,446	\$ 50,313
Interest paid	\$ 29,563	\$ 28,305	\$ 19,658

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(In thousands)							
Balance December 31, 2010	151,054	\$1,511	\$ 970,068	\$2,618,479	\$(2,509,466)	\$(11,795)	\$1,068,797
Net income	—	—	—	432,968	—	—	432,968
Other comprehensive loss	—	—	—	—	—	(24,260)	(24,260)
Issuance of common stock for employees:							
Employee Stock Purchase Plan ...	58	1	4,149	—	—	—	4,150
Stock options exercised	1,381	14	55,989	—	—	—	56,003
Tax benefit related to stock option plans	—	—	32,239	—	—	—	32,239
Release of valuation allowance	—	—	176	—	—	—	176
Treasury stock	—	—	—	—	(370,835)	—	(370,835)
Stock-based compensation	264	2	27,338	—	—	—	27,340
Balance December 31, 2011	<u>152,757</u>	<u>\$1,528</u>	<u>\$1,089,959</u>	<u>\$3,051,447</u>	<u>\$(2,880,301)</u>	<u>\$(36,055)</u>	<u>\$1,226,578</u>
Net income	—	—	—	461,443	—	—	461,443
Other comprehensive income	—	—	—	—	—	9,660	9,660
Issuance of common stock for employees:							
Employee Stock Purchase Plan ...	66	1	4,660	—	—	—	4,661
Stock options exercised	630	6	24,202	—	—	—	24,208
Tax benefit related to stock option plans	—	—	10,568	—	—	—	10,568
Increase in valuation allowance	—	—	(2,354)	—	—	—	(2,354)
Treasury stock	—	—	—	—	(295,878)	—	(295,878)
Stock-based compensation	243	2	28,469	—	—	—	28,471
Balance December 31, 2012	<u>153,696</u>	<u>\$1,537</u>	<u>\$1,155,504</u>	<u>\$3,512,890</u>	<u>\$(3,176,179)</u>	<u>\$(26,395)</u>	<u>\$1,467,357</u>
Net income	—	—	—	450,003	—	—	450,003
Other comprehensive income	—	—	—	—	—	32,274	32,274
Issuance of common stock for employees:							
Employee Stock Purchase Plan ...	58	1	4,816	—	—	—	4,817
Stock options exercised	1,281	13	64,128	—	—	—	64,141
Tax benefit related to stock option plans	—	—	15,842	—	—	—	15,842
Increase in valuation allowance	—	—	(892)	—	—	—	(892)
Treasury stock	—	—	—	—	(301,580)	—	(301,580)
Stock-based compensation	211	1	31,210	—	—	—	31,211
Balance December 31, 2013	<u>155,246</u>	<u>\$1,552</u>	<u>\$1,270,608</u>	<u>\$3,962,893</u>	<u>\$(3,477,759)</u>	<u>\$ 5,879</u>	<u>\$1,763,173</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Description of Business and Organization

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. LC is a standard technique and is utilized in a broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials, and to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as “proteomics”), nutritional safety analysis and environmental testing. LC-MS instruments combine a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. Through its TA Division (“TA®”), the Company primarily designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments, which are used in predicting the suitability of fine chemicals, pharmaceuticals, water, polymers and viscous liquids for various industrial, consumer goods and healthcare products, as well as for life science research. The Company is also a developer and supplier of software-based products that interface with the Company’s instruments, as well as other manufacturers’ instruments, and are typically purchased by customers as part of the instrument system.

2 Basis of Presentation and Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (“GAAP”) requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, product returns and allowances, bad debts, inventory valuation, equity investments, goodwill and intangible assets, warranty and installation provisions, income taxes, contingencies, litigation, retirement plan obligations and stock-based compensation. 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.

Risks and Uncertainties

The Company is subject to risks common to companies in the analytical instrument industry, including, but not limited to, global economic and financial market conditions, fluctuations in customer demand, development by its competitors of new technological innovations, levels of debt and debt service requirements, risk of disruption, fluctuations in foreign currency exchange rates, dependence on key personnel, protection and litigation of proprietary technology, shifts in taxable income between tax jurisdictions and compliance with regulations of the U.S. Food and Drug Administration and similar foreign regulatory authorities and agencies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, most of which are wholly owned. The Company consolidates entities in which it owns or controls fifty percent or more of the voting shares. All material inter-company balances and transactions have been eliminated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Translation of Foreign Currencies

For most of the Company's foreign operations, assets and liabilities are translated into U.S. dollars at exchange rates prevailing on the balance sheet date, while revenues and expenses are translated at average exchange rates prevailing during the period. Any resulting translation gains or losses are included in accumulated other comprehensive income in the consolidated balance sheets. The Company's net sales derived from operations outside the United States were 71% in 2013, 2012 and 2011. Gains and losses from foreign currency transactions are included in net income in the consolidated statements of operations and were not material for the years presented.

Seasonality of Business

The Company typically experiences an increase in sales in the fourth quarter, as a result of purchasing habits for capital goods of customers that tend to exhaust their spending budgets by calendar year end.

Cash, Cash Equivalents and Investments

Cash equivalents represent highly liquid investments, with original maturities of 90 days or less, primarily in bank deposits, U.S. and U.K. treasury bill money market funds and commercial paper. Investments with longer maturities are classified as investments, and are held primarily in U.S. treasury bills, Canadian government U.S. dollar-denominated treasury bills and commercial paper, bank deposits and corporate debt securities.

Investments are classified as available-for-sale in accordance with the accounting standards for investments in debt and equity securities. All available-for-sale securities are recorded at fair market value and any unrealized holding gains and losses, to the extent deemed temporary, are included in accumulated other comprehensive income in stockholders' equity, net of the related tax effects. If any adjustment to fair value reflects a decline in the value of the investment, the Company considers all available evidence to evaluate the extent to which the decline is "other than temporary" and marks the investment to market through a charge to the statement of operations. The Company classifies its investments exclusive of those categorized as cash equivalents.

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, 2013 and 2012, \$1,738 million out of \$1,804 million and \$1,489 million out of \$1,539 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.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is based on a number of factors, including historical experience and the customer's credit-worthiness. The allowance for doubtful accounts is reviewed on at least a quarterly basis. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged against the allowance when the Company determines it is probable that the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its customers. The allowance for sales returns is the best estimate of the amount of future product returns related to current period revenue and is based on historical experience.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a summary of the activity of the Company's allowance for doubtful accounts and sales returns for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Allowance for Doubtful Accounts and Sales				
Returns:				
2013	\$8,240	\$4,386	\$(5,569)	\$7,057
2012	\$8,584	\$7,298	\$(7,642)	\$8,240
2011	\$6,196	\$9,932	\$(7,544)	\$8,584

Concentration of Credit Risk

The Company sells its products and services to a significant number of large and small customers throughout the world, with net sales to the pharmaceutical industry of approximately 52% in 2013, 53% in 2012 and 52% in 2011. None of the Company's individual customers accounted for more than 2% of annual Company sales in 2013, 2012 or 2011. The Company performs continuing credit evaluations of its customers and generally does not require collateral, but in certain circumstances may require letters of credit or deposits. Historically, the Company has not experienced significant bad debt losses.

Inventory

The Company values all of its inventories at the lower of cost or market on a first-in, first-out basis ("FIFO").

Income Taxes

Deferred income taxes are recognized for temporary differences between the financial statement and income tax basis of assets and liabilities using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Appropriate short-term and long-term liabilities have also been recorded to recognize uncertain tax return reporting positions.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense, while the costs of significant improvements are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives: buildings — fifteen to thirty years; building improvements — five to ten years; leasehold improvements — the shorter of the economic useful life or life of lease; and production and other equipment — three to ten years. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the consolidated balance sheets and related gains or losses are reflected in the consolidated statements of operations. There were no material gains or losses from retirement or sale of assets in 2013, 2012 and 2011.

Asset Impairments

The Company reviews its long-lived assets for impairment in accordance with the accounting standards for property, plant and equipment. Whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company evaluates the fair value of the asset, relying on a number of factors, including, but not limited to, operating results, business plans, economic projections and anticipated future cash flows. Any change in the carrying amount of an asset as a result of the Company's evaluation is separately identified in the consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill and Other Intangible Assets

The Company tests for goodwill impairment using a fair-value approach at the reporting unit level annually, or earlier, if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Additionally, the Company performs an annual goodwill impairment assessment for its reporting units as of January 1 each year. The goodwill and other intangible assets accounting standards define a reporting unit as an operating segment, or one level below an operating segment, if discrete financial information is prepared and reviewed by management. For goodwill impairment review purposes, the Company has two reporting units, the Waters Division and TA Division. Goodwill is allocated to the reporting units at the time of acquisition. Under the impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, goodwill impairment is recognized to the extent that the carrying amount of goodwill exceeds the implied fair value of the goodwill. The fair value of reporting units was estimated using a discounted cash flows technique, which includes certain management assumptions, such as estimated future cash flows, estimated growth rates and discount rates.

The Company's intangible assets include purchased technology; capitalized software development costs; costs associated with acquiring Company patents, trademarks and intellectual properties, such as licenses; debt issuance costs and acquired in-process research and development ("IPR&D"). Purchased intangibles are recorded at their fair market values as of the acquisition date and amortized over their estimated useful lives, ranging from one to fifteen years. Other intangibles are amortized over a period ranging from one to thirteen years. Debt issuance costs are amortized over the life of the related debt. Acquired IPR&D is amortized from the date of completion over its estimated useful life. In addition, acquired IPR&D will be tested for impairment until completion of the acquired programs.

Software Development Costs

The Company capitalizes internal and external software development costs for products offered for sale in accordance with the accounting standards for the costs of software to be sold, leased, or otherwise marketed. Capitalized costs are amortized to cost of sales over the period of economic benefit, which approximates a straight-line basis over the estimated useful lives of the related software products, generally three to ten years. The Company capitalized \$35 million and \$34 million of direct expenses that were related to the development of software in 2013 and 2012, respectively. Net capitalized software included in intangible assets totaled \$151 million and \$138 million at December 31, 2013 and 2012, respectively. See Note 7, "Goodwill and Other Intangibles".

The Company capitalizes internal software development costs for internal use in accordance with the accounting standards for goodwill and other intangible assets. Capitalized internal software development costs are amortized over the period of economic benefit, which approximates a straight-line basis over ten years. Net capitalized internal software included in property, plant and equipment totaled \$3 million at both December 31, 2013 and 2012.

Other Investments

The Company accounts for its investments that represent less than twenty percent ownership, and for which the Company does not have significant influence, using the accounting standards for investments in debt and equity securities. Investments for which the Company does not have the ability to exercise significant influence, and for which there is not a readily determinable market value, are accounted for under the cost method of accounting. The Company periodically evaluates the carrying value of its investments accounted for under the cost method of accounting and carries them at the lower of cost or estimated net realizable value. For investments in which the Company owns or controls between twenty and forty-nine percent of the voting shares, or over which it exerts significant influence over operating and financial policies, the equity method of accounting is used. The Company's share of net income or losses of equity investments is included in the consolidated statements of operations and was not material in any period presented. All long-term investments at December 31, 2013 and 2012 are included in other assets and amounted to \$3 million for both periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value Measurements

In accordance with the accounting standards for fair value measurements and disclosures, certain of the Company's assets and liabilities are measured at fair value on a recurring basis as of December 31, 2013 and 2012. Fair values determined by Level 1 inputs utilize observable data, such as quoted prices in active markets. Fair values determined by Level 2 inputs utilize data points other than quoted prices in active markets that are observable either directly or indirectly. Fair values determined by Level 3 inputs utilize unobservable data points for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2013 (in thousands):

	Total at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	\$ 556,539	\$—	\$ 556,539	\$—
Foreign government securities	139,670	—	139,670	—
Corporate debt securities	629,434	—	629,434	—
Time deposits	74,050	—	74,050	—
Equity securities	147	—	147	—
Other cash equivalents	62,851	—	62,851	—
Waters 401(k) Restoration Plan assets	31,203	—	31,203	—
Foreign currency exchange contract agreements	929	—	929	—
Total	<u>\$1,494,823</u>	<u>\$—</u>	<u>\$1,494,823</u>	<u>\$—</u>
Liabilities:				
Foreign currency exchange contract agreements	\$ 88	\$—	\$ 88	\$—
Total	<u>\$ 88</u>	<u>\$—</u>	<u>\$ 88</u>	<u>\$—</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2012 (in thousands):

	Total at December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	\$ 470,421	\$—	\$ 470,421	\$—
Foreign government securities	313,237	—	313,237	—
Corporate debt securities	311,607	—	311,607	—
Time deposits	64,037	—	64,037	—
Equity securities	70	—	70	—
Other cash equivalents	44,850	—	44,850	—
Waters 401(k) Restoration Plan assets	24,827	—	24,827	—
Foreign currency exchange contract agreements	1,173	—	1,173	—
Total	<u>\$1,230,222</u>	<u>\$—</u>	<u>\$1,230,222</u>	<u>\$—</u>
Liabilities:				
Foreign currency exchange contract agreements	\$ 693	\$—	\$ 693	\$—
Total	<u>\$ 693</u>	<u>\$—</u>	<u>\$ 693</u>	<u>\$—</u>

The fair values of the Company's cash equivalents, investments, 401(k) restoration plan assets and foreign currency exchange contracts are determined through market and observable sources and have been classified as Level 2. These assets and liabilities have been initially valued at the transaction price and subsequently valued, typically utilizing third-party pricing services. The pricing services use many inputs to determine value, including reportable trades, benchmark yields, credit spreads, broker/dealer quotes, current spot rates and other industry and economic events. The Company validates the prices provided by third-party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing these validation procedures, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of December 31, 2013 and 2012.

Fair Value of Other Financial Instruments

The Company's cash, accounts receivable, accounts payable and variable interest rate debt are recorded at cost, which approximates fair value. The carrying value of the Company's fixed interest rate debt was \$400 million at both December 31, 2013 and 2012. The fair value of the Company's fixed rate debt is estimated using discounted cash flow models, based on estimated current rates offered for similar debt under current market conditions for the Company. The fair value of the Company's fixed interest rate debt was estimated to be \$398 million and \$413 million at December 31, 2013 and 2012, respectively, using Level 2 inputs.

Derivative Transactions

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 records its derivative transactions in accordance with the accounting standards for derivative instruments and hedging activities, which establish the accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

balance sheets at fair value as either assets or liabilities. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings; ineffective portions of changes in fair value are recognized in earnings. In addition, disclosures required for derivative instruments and hedging activities include the Company's objectives for using derivative instruments, the level of derivative activity the Company engages in, as well as how derivative instruments and related hedged items affect the Company's financial position and performance.

The Company currently uses derivative instruments to manage exposures to foreign currency risks. The Company's objectives for holding derivatives are to minimize foreign currency risk using the most effective methods to eliminate or reduce the impact of foreign currency exposures. The Company documents all relationships between hedging instruments and hedged items and links all derivatives designated as fair-value, cash flow or net investment hedges to specific assets and liabilities on the consolidated balance sheets or to specific forecasted transactions. In addition, the Company considers the impact of its counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute under the contracts. The Company also assesses and documents, both at the hedges' inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows associated with the hedged items.

The Company enters into forward foreign exchange contracts, principally to hedge the impact of currency fluctuations on certain inter-company balances and short-term assets and liabilities. Principal hedged currencies include the Euro, Japanese yen, British pound and Singapore dollar. The periods of these forward contracts typically range from one to three months and have varying notional amounts, which are intended to be consistent with changes in the underlying exposures. Gains and losses on these forward contracts are recorded in cost of sales in the consolidated statements of operations. At December 31, 2013, 2012 and 2011, the Company held forward foreign exchange contracts with notional amounts totaling \$104 million, \$134 million and \$161 million, respectively.

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Other current assets	\$929	\$1,173
Other current liabilities	\$ 88	\$ 693

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

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Realized gains (losses) on closed contracts	\$8,666	\$4,186	\$(2,233)
Unrealized gains (losses) on open contracts	361	1,716	(1,035)
Cumulative net pre-tax gains (losses)	<u>\$9,027</u>	<u>\$5,902</u>	<u>(3,268)</u>

Stockholders' Equity

In May 2012, the Company's Board of Directors authorized the Company to repurchase up to \$750 million of its outstanding common stock over a two-year period. During 2013, 2012 and 2011, the Company repurchased 3.1 million, 3.5 million and 4.5 million shares at a cost of \$295 million, \$290 million and \$364 million,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

respectively, under the May 2012 authorization and other previously announced programs. As of December 31, 2013, the Company repurchased 4.3 million shares at a cost of \$402 million under the May 2012 repurchase program, leaving \$348 million authorized for future purchases. In addition, the Company repurchased \$6 million of common stock related to the vesting of restricted stock units during each of the years ended December 31, 2013, 2012 and 2011. 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.

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. 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 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 the 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

Product Warranty Costs

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

The following is a summary of the activity of the Company's accrued warranty liability for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	<u>Balance at Beginning of Period</u>	<u>Accruals for Warranties</u>	<u>Settlements Made</u>	<u>Balance at End of Period</u>
Accrued warranty liability:				
2013	\$12,353	\$ 8,466	\$(7,857)	\$12,962
2012	\$13,258	\$ 7,212	\$(8,117)	\$12,353
2011	\$11,272	\$10,175	\$(8,189)	\$13,258

Advertising Costs

All advertising costs are expensed as incurred and are included in selling and administrative expenses in the consolidated statements of operations. Advertising expenses for 2013, 2012 and 2011 were \$11 million, \$13 million and \$11 million, respectively.

Research and Development Expenses

Research and development expenses are comprised of costs incurred in performing research and development activities, including salaries and benefits, facilities costs, overhead costs, contract services and other outside costs. Research and development expenses are expensed as incurred.

Stock-Based Compensation

The Company has two stock-based compensation plans, which are described in Note 12, "Stock-Based Compensation".

Earnings Per Share

In accordance with the earnings per share accounting standards, the Company presents two earnings per share ("EPS") amounts. Income per basic common share is based on income available to common shareholders and the weighted-average number of common shares outstanding during the periods presented. Income per diluted common share includes additional dilution from potential common stock, such as stock issuable pursuant to the exercise of stock options outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Retirement Plans

The Company sponsors various retirement plans, which are described in Note 14, “Retirement Plans”.

Comprehensive Income

The Company accounts for comprehensive income in accordance with the accounting standards for comprehensive income, which establish the accounting rules for reporting and displaying comprehensive income. These standards require that all components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

Subsequent Events

The Company did not have any material subsequent events, except for the recent acquisition discussed in Note 6, “Acquisitions”.

Recently Adopted Accounting Standards

In July 2012, amended accounting guidance was issued for indefinite-lived intangible assets other than goodwill in order to simplify how companies test indefinite-lived intangible assets for impairment. The adoption of this standard in 2013 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In February 2013, accounting guidance was issued to improve the reporting of reclassifications out of accumulated other comprehensive income. The adoption of this standard in 2013 did not have a material effect on the Company’s financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In July 2013, amended accounting guidance was issued regarding the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2013. The adoption of this standard is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3 Marketable Securities

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

	December 31, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Treasury securities	\$ 556,438	\$111	\$ (10)	\$ 556,539
Foreign government securities	139,670	—	—	139,670
Corporate debt securities	629,477	190	(233)	629,434
Time deposits	74,050	—	—	74,050
Equity securities	77	70	—	147
Total	<u>\$1,399,712</u>	<u>\$371</u>	<u>\$ (243)</u>	<u>\$1,399,840</u>

Amounts included in:

Cash equivalents	\$ 36,966	\$ —	\$ —	\$ 36,966
Investments	1,362,746	371	(243)	1,362,874
Total	<u>\$1,399,712</u>	<u>\$371</u>	<u>\$ (243)</u>	<u>\$1,399,840</u>

	December 31, 2012			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Treasury securities	\$ 470,421	\$ —	\$ —	\$ 470,421
Foreign government securities	313,237	—	—	313,237
Corporate debt securities	311,607	—	—	311,607
Time deposits	64,037	—	—	64,037
Equity securities	1,653	—	(1,583)	70
Total	<u>\$1,160,955</u>	<u>\$ —</u>	<u>\$(1,583)</u>	<u>\$1,159,372</u>

Amounts included in:

Cash equivalents	\$ 101,382	\$ —	\$ —	\$ 101,382
Investments	1,059,573	—	(1,583)	1,057,990
Total	<u>\$1,160,955</u>	<u>\$ —</u>	<u>\$(1,583)</u>	<u>\$1,159,372</u>

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

	December 31, 2013	December 31, 2012
Due in one year or less	\$1,011,459	\$1,057,990
Due after one year through two years	314,184	—
Total	<u>\$1,325,643</u>	<u>\$1,057,990</u>

In the year ended December 31, 2013, the Company recorded a \$1.6 million charge for an other-than-temporary impairment to an investment. Realized gains and losses on sales of investments were not material in 2013, 2012 and 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4 Inventories

Inventories are classified as follows (in thousands):

	December 31,	
	2013	2012
Raw materials	\$ 76,930	\$ 73,280
Work in progress	19,656	16,133
Finished goods	146,214	140,152
Total inventories	<u>\$242,800</u>	<u>\$229,565</u>

5 Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	December 31,	
	2013	2012
Land and land improvements	\$ 37,156	\$ 35,734
Buildings and leasehold improvements	205,638	196,554
Production and other equipment	336,135	317,285
Construction in progress	80,420	37,750
Total property, plant and equipment	659,349	587,323
Less: accumulated depreciation and amortization	(334,417)	(314,044)
Property, plant and equipment, net	<u>\$ 324,932</u>	<u>\$ 273,279</u>

During 2013, 2012 and 2011, the Company retired and disposed of approximately \$19 million, \$6 million and \$6 million of property, plant and equipment, respectively, most of which was fully depreciated and no longer in use. Gains and losses on disposal were immaterial.

6 Acquisitions

The Company accounts for business acquisitions under the accounting standards for business combinations and the results of each acquisition have been included in the Company's consolidated results from the respective acquisition dates.

In January 2014, the Company acquired all of the outstanding stock of ULSP B.V., a manufacturer of solutions for ultra low temperature applications, for approximately \$3 million in cash.

In December 2013, the Company acquired the net assets of LaserComp Inc. ("LaserComp"), a manufacturer of thermal conductivity measurement instruments, for approximately \$12 million in cash. LaserComp was acquired to expand TA's thermal analysis instrument product offering and to leverage the Company's distribution channels. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated \$5 million of the purchase price to intangible assets comprised of technology, customer relationships and trade name. The Company is amortizing the technology and customer relationships over ten years and seven years, respectively. The remaining purchase price of \$6 million has been accounted for as goodwill. The goodwill is deductible for tax purposes.

In December 2013, the Company acquired all of the outstanding capital stock of Expert Systems Solutions S.r.l. ("ESS"), a manufacturer of advanced thermal analysis instruments, for approximately \$3 million in cash. ESS was acquired to expand TA's thermal analysis instrument product offering and to leverage the Company's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

distribution channels. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated \$1 million of the purchase price to an intangible asset comprised of technology, which will be amortized over ten years. The remaining purchase price of \$2 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

In August 2013, the Company acquired all of the outstanding capital stock of Nonlinear Dynamics Ltd. (“Nonlinear Dynamics”), a developer of proteomics and metabolomics software, for approximately \$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. Nonlinear Dynamics will develop the next-generation software that will be a key component of the Company’s future high-end MS instruments. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated \$3 million of the purchase price to intangible assets comprised of software, customer relationships and trade name. The Company is amortizing the software and customer relationships over five years. The remaining purchase price of \$20 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

In July 2013, the Company acquired all of the outstanding capital stock of Scarabaeus Mess-und Produktionstechnik GmbH (“Scarabaeus”), a manufacturer of rheometers for the rubber and elastomer markets, for approximately \$4 million in cash. Scarabaeus was acquired to expand TA’s thermal analysis instrument product offering and to leverage the Company’s distribution channels. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated \$2 million of the purchase price to intangible assets comprised of completed technology, software and customer relationships. The Company is amortizing acquired technology over ten years and the software and customer relationships over seven years. The remaining purchase price of \$3 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

The fair values of the assets and liabilities acquired in each business acquisition were determined using various income-approach valuation techniques, which use Level 3 inputs. The following table presents the fair values as of the respective acquisition dates, as determined by the Company, of 100% of the assets and liabilities owned and recorded in connection with the acquisitions of LaserComp, ESS, Nonlinear Dynamics and Scarabaeus (in thousands):

Cash	\$ 295
Accounts receivable	1,616
Inventory	975
Intangible assets	10,844
Goodwill	31,231
Other assets	377
Total assets acquired	45,338
Accrued expenses and other liabilities	2,013
Deferred tax liability	1,635
Cash consideration paid	<u>\$41,690</u>

In July 2012, the Company acquired all of the outstanding capital stock of Blue Reference, Inc. (“Blue Reference”), a U.S.-based developer and distributor of software products used for the real-time mining and analysis of multiple-application scientific databases, for \$14 million in cash. The Company has integrated the Blue Reference technology into software product platforms to further differentiate its offerings by providing customers with a more efficient scientific information assessment process, where there is an ongoing need for immediacy and interactivity of multiple scientific databases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In February 2012, the Company acquired the net assets of its Israeli sales and service distributor for \$6 million in cash.

In January 2012, the Company acquired all of the outstanding capital stock of Baehr Thermoanalyse GmbH (“Baehr”), a German manufacturer of a wide range of thermal analyzers, for \$12 million in cash, including the assumption of \$1 million of debt. Baehr was acquired to expand TA’s thermal analysis instrument product offering and to leverage the Company’s distribution channels.

In July 2011, the Company acquired the net assets of Anter Corporation (“Anter”), a manufacturer of thermal analyzers used to measure thermal expansion and shrinkage, thermal conductivity and resistivity, thermal diffusivity and specific heat capacity of a wide range of materials, for \$11 million in cash. Anter was acquired to expand TA’s thermal analysis instrument product offering and to leverage the Company’s distribution channels.

The principal factor that resulted in recognition of goodwill in these acquisitions is that the purchase price was based, in part, on cash flow projections assuming the integration of any acquired technology, distribution channels and products with the Company’s products, which is of considerably greater value than utilizing each of the acquired companies’ technology, customer access or products on a stand-alone basis. The goodwill also includes value assigned to assembled workforce, which cannot be recognized as an intangible asset. Specifically, the goodwill acquired with Nonlinear Dynamics consists of the value assigned to the workforce and the future incremental sales synergies anticipated when Nonlinear Dynamics develops the future next-generation software. This new software, which will be a key component of the Company’s future high-end MS instruments, has not yet been developed.

In each acquisition, the sellers provided the Company with customary representations, warranties and indemnification, which would be settled in the future if and when a breach of the contractual representation or warranty condition occurs. The pro forma effect of the ongoing operations for Waters, LaserComp, ESS, Nonlinear Dynamics, Scarabaeus, Blue Reference, the Israeli sales and service distributor, Baehr and Anter, either individually or in the aggregate, as though these acquisitions had occurred at the beginning of the periods covered by this report was not significant.

7 Goodwill and Other Intangibles

The carrying amount of goodwill was \$350 million and \$317 million at December 31, 2013 and 2012, respectively. The Company’s acquisitions increased goodwill by \$31 million (see Note 6) and the effect of foreign currency translation increased goodwill by \$2 million in 2013.

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

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Weighted- Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted- Average Amortization Period
Purchased intangibles	\$167,604	\$105,347	10 years	\$154,749	\$ 94,498	11 years
Capitalized software	340,070	189,415	7 years	293,589	155,394	5 years
Licenses	3,909	3,390	7 years	7,112	6,361	6 years
Patents and other intangibles	49,902	24,221	8 years	40,290	19,342	8 years
Total	<u>\$561,485</u>	<u>\$322,373</u>	8 years	<u>\$495,740</u>	<u>\$275,595</u>	7 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the year ended December 31, 2013, the Company acquired \$11 million of purchased intangibles as a result of the acquisitions of Nonlinear Dynamics, Scarabaeus, LaserComp and ESS (see Note 6). In addition, the gross carrying value of intangible assets and accumulated amortization for intangible assets increased by \$14 million and \$9 million, respectively, in the year ended December 31, 2013 due to the effects of foreign currency translation. Amortization expense for intangible assets was \$42 million, \$31 million and \$30 million for the years ended December 31, 2013, 2012 and 2011, respectively. Included in amortization expense for the year ended December 31, 2012 is a one-time \$4 million charge to purchased intangibles amortization expense related to the discontinuance of a product trade name intangible asset. Amortization expense for intangible assets is estimated to be between \$44 million and \$49 million per year for each of the next five years. The increase in amortization expense in 2013 and for the next five years is primarily due to amortization associated with capitalized software costs related to the launch of new software product platforms in the first quarter of 2013. The carrying value of the new software platform was approximately \$112 million as of December 31, 2013 and will be amortized over ten years.

8 Debt

In June 2013, the Company entered into a new credit agreement (the “2013 Credit Agreement”) that provides for a \$1.1 billion revolving facility and a \$300 million term loan facility. The revolving facility and term loan facility both mature on June 25, 2018 and require no scheduled prepayments before that date. The Company used \$860 million of the proceeds from the 2013 Credit Agreement to repay the outstanding amounts under the Company’s existing multi-borrower credit agreement dated July 2011 (the “2011 Credit Agreement”). Waters terminated the 2011 Credit Agreement early without penalty.

The interest rates applicable to the 2013 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 75 basis points and 112.5 basis points for adjusted LIBO rate loans. The facility fee on the 2013 Credit Agreement ranges between 12.5 basis points and 25 basis points. The 2013 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 2013 Credit Agreement includes negative covenants, affirmative covenants, representations and warranties and events of default that are customary for investment grade credit facilities.

At December 31, 2013, \$125 million of the outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheet due to the fact that the Company expects to utilize this portion of the revolving line of credit to fund its working capital needs within the next twelve months and can repay and re-borrow from the facility without penalty. The remaining \$490 million of the outstanding portions of the revolving facilities have been classified as long-term liabilities in the consolidated balance sheet, as no repayments are required prior to the maturity date in 2018 and this portion is not expected to be repaid within the next twelve months.

During the year ended December 31, 2011, the Company issued and sold senior unsecured notes with a face value of \$200 million. At both December 31, 2013 and 2012, the Company had a total of \$400 million of outstanding senior unsecured notes. Interest on the senior unsecured notes is payable semi-annually each year. 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. In the event of a change in control (as defined in the note purchase agreement) of the Company, the Company may be required to prepay

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

As of December 31, 2013, the Company was in compliance with all debt covenants.

The Company had the following outstanding debt at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
Foreign subsidiary lines of credit	\$ 8,346	\$ 7,781
Credit agreements	125,000	125,000
Total notes payable and debt	133,346	132,781
Senior unsecured notes — Series A — 3.75%, due February 2015	100,000	100,000
Senior unsecured notes — Series B — 5.00%, due February 2020	100,000	100,000
Senior unsecured notes — Series C — 2.50%, due March 2016	50,000	50,000
Senior unsecured notes — Series D — 3.22%, due March 2018	100,000	100,000
Senior unsecured notes — Series E — 3.97%, due March 2021	50,000	50,000
Credit agreements	790,000	645,000
Total long-term debt	1,190,000	1,045,000
Total debt	<u>\$1,323,346</u>	<u>\$1,177,781</u>

As of December 31, 2013 and 2012, the Company had a total amount available to borrow under the existing credit agreements of \$483 million and \$428 million, respectively, after outstanding letters of credit. The weighted-average interest rates applicable to the senior unsecured notes and credit agreement borrowings collectively were 1.94% and 2.11% at December 31, 2013 and 2012, respectively.

The Company and its foreign subsidiaries also had available short-term lines of credit totaling \$87 million and \$107 million at December 31, 2013 and 2012, respectively, for the purpose of short-term borrowing and issuance of commercial guarantees. The weighted-average interest rates applicable to the short-term borrowings were 2.00% at both December 31, 2013 and 2012.

9 Income Taxes

Income tax data for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
The components of income from operations before income taxes are as follows:			
Domestic	\$116,067	\$116,071	\$102,998
Foreign	374,038	371,554	406,254
Total	<u>\$490,105</u>	<u>\$487,625</u>	<u>\$509,252</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31,		
	2013	2012	2011
The current and deferred components of the provision for income taxes on operations are as follows:			
Current	\$ 39,933	\$ 78,401	\$ 82,108
Deferred	169	(52,219)	(5,824)
Total	<u>\$ 40,102</u>	<u>\$ 26,182</u>	<u>\$ 76,284</u>
The jurisdictional components of the provision for income taxes on operations are as follows:			
Federal	\$ (702)	\$ 39,840	\$ 33,242
State	5,142	5,599	5,661
Foreign	35,662	(19,257)	37,381
Total	<u>\$ 40,102</u>	<u>\$ 26,182</u>	<u>\$ 76,284</u>
The differences between income taxes computed at the United States statutory rate and the provision for income taxes are summarized as follows:			
Federal tax computed at U.S. statutory income tax rate	\$171,537	\$ 170,669	\$ 178,238
Settlement of tax audits	(30,552)	(6,035)	(1,617)
State income tax, net of federal income tax benefit	3,342	3,639	3,679
Net effect of foreign operations	(96,461)	(102,858)	(100,911)
Recognition of deferred tax asset associated with a non-U.S. net operating loss	—	(36,410)	—
Other, net	(7,764)	(2,823)	(3,105)
Provision for income taxes	<u>\$ 40,102</u>	<u>\$ 26,182</u>	<u>\$ 76,284</u>

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%, 23.25% and 0%, respectively, as of December 31, 2013. The Company has a contractual tax rate in Singapore of 0% through March 2016, based upon achievement of contractual milestones that the Company expects to continue to meet. The current statutory tax rate in Singapore is 17%.

The Company's effective tax rates for the years ended December 31, 2013, 2012 and 2011 were 8.2%, 5.4% and 15.0%, respectively. The income tax provision for 2013 included a \$31 million net tax benefit related to the completion of tax audit examinations. In addition, the research and development tax credit ("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 is included in the 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 income tax provision for the year ended December 31, 2012 included a \$36 million tax benefit related to the Company's refinancing of certain of its inter-company debt arrangements, which enabled the Company to recognize a deferred tax asset associated with a non-U.S. net operating loss carryforward. During the year ended December 31, 2012, the Company also recorded a \$6 million tax benefit related to tax audit settlements in the U.S. These tax benefits decreased the Company's effective tax rate by 8.6 percentage points in the year ended December 31, 2012. Included in the income tax provision for the year ended December 31, 2011 is \$2 million of tax benefit related to the reversal of a reserve for interest related to a tax audit settlement in the United Kingdom. This tax benefit decreased the Company's effective tax rate by 0.3 percentage points in the year ended December 31, 2012. The remaining differences between the effective tax rates for 2013, 2012 and 2011 were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences and carryforwards which give rise to deferred tax assets and deferred tax (liabilities) are summarized as follows (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Net operating losses and credits	\$116,567	\$119,405
Depreciation	7,163	14,555
Stock-based compensation	22,684	25,024
Deferred compensation	25,391	29,666
Revaluation of equity investments	3,832	3,919
Inventory	3,651	3,658
Accrued liabilities and reserves	23,268	36,711
Other	15,289	19,038
Total deferred tax assets	217,845	251,976
Valuation allowance	(94,952)	(93,576)
Deferred tax assets, net of valuation allowance	122,893	158,400
Deferred tax liabilities:		
Capitalized software	(18,012)	(15,726)
Amortization	(3,798)	(3,980)
Indefinite-lived intangibles	(18,840)	(18,252)
Other	—	(4)
Total deferred tax liabilities	(40,650)	(37,962)
Net deferred tax assets	<u>\$ 82,243</u>	<u>\$120,438</u>

Net deferred tax assets of \$32 million and \$51 million are included in other current assets at December 31, 2013 and 2012, respectively, and net deferred tax assets of \$69 million are included in other assets for both periods. Net deferred tax liabilities of \$1 million and \$18 million are included in other current liabilities and other long-term liabilities, respectively, at December 31, 2013. During the year ended December 31, 2012, the deferred tax assets associated with net operating losses and tax credit carryforwards and the related valuation allowance increased due to the aforementioned tax benefit related to the Company's refinancing of inter-company debt arrangements. This deferred tax asset was established for \$111 million, for which a \$75 million valuation allowance was established and a \$36 million tax benefit was recorded in the income tax provision. The Company's net deferred tax assets associated with net operating losses and tax credit carryforwards are approximately \$32 million as of December 31, 2013, which represent the future tax benefit of foreign net operating loss carryforwards that do not expire under current law.

The income tax benefits associated with non-qualified stock option compensation expense recognized for tax purposes and credited to additional paid-in capital were \$16 million, \$11 million and \$32 million for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013, there were unremitted earnings of foreign subsidiaries of approximately \$3 billion. The Company has not provided for U.S. income taxes or foreign withholding taxes on these earnings as it is the Company's current intention to permanently reinvest these earnings outside the U.S. Because of the complexity of U.S. and foreign tax rules applicable to the distribution of earnings from foreign subsidiaries to U.S. legal entities, the determination of the unrecognized deferred tax liability on these earnings is not practicable. Events that could trigger a tax might include U.S. acquisitions or other investments funded by cash distributions or loans from a foreign subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 those unrecognized tax benefits associated with those reporting positions for the time value of money.

The following is a summary of the activity of the Company's unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance at the beginning of the period	\$ 64,390	\$73,199	\$71,523
Realization of uncertain U.S. tax benefits	—	(5,625)	—
Changes resulting from completion of tax examinations	(35,279)	—	—
Other changes in uncertain tax benefits	(4,395)	(3,184)	1,676
Balance at the end of the period	<u>\$ 24,716</u>	<u>\$64,390</u>	<u>\$73,199</u>

The Company's uncertain tax positions are taken with respect to income tax return reporting periods beginning after December 31, 2007, which are the periods that generally remain open to income tax audit examination by income tax authorities. 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 audit 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. As of December 31, 2013, the Company expects to record additional reductions in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately \$6 million within the next twelve months due to 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.

10 Litigation

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, results of operations or cash flows. In June 2012, a \$3 million payment was made to settle a complaint that was filed against the Company alleging patent infringement.

The Company has been engaged in ongoing patent litigation with Agilent Technologies GmbH ("Agilent") in Germany. In July 2005, Agilent brought an action against the Company alleging that certain features of the Alliance pump continued to infringe certain of its patents. In August 2006, following a trial in this action, the German court ruled that the Company did not infringe the patents. Agilent filed an appeal in this action. A hearing on this appeal was held in January 2008. The appeals court affirmed the finding of the trial court that the Company did not infringe and Agilent appealed this finding to the German Federal Court of Justice. In December

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2012, Agilent won this appeal and the Company recorded a \$4 million provision for damages and fees estimated to be incurred in connection with this litigation. The accrued patent litigation expense is in other current liabilities in the consolidated balance sheets at December 31, 2013 and 2012.

11 Other Commitments and Contingencies

Lease agreements, expiring at various dates through 2026, cover buildings, office equipment and automobiles. Rental expense was \$30 million, \$30 million and \$28 million during the years ended December 31, 2013, 2012 and 2011, respectively. Future minimum rents payable as of December 31, 2013 under non-cancelable leases with initial terms exceeding one year are as follows (in thousands):

2014	\$ 23,668
2015	17,953
2016	11,475
2017	7,276
2018 and thereafter	18,060

The Company licenses certain technology and software from third parties. Future minimum license fees payable under existing license agreements as of December 31, 2013 are immaterial for the years ended December 31, 2014 and thereafter.

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.

12 Stock-Based Compensation

In May 2012, the Company's shareholders approved the Company's 2012 Equity Incentive Plan ("2012 Plan"). As of December 31, 2013, the 2012 Plan has 4.9 million shares available for grant in the form of incentive or non-qualified stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units or other types of awards. The Company issues new shares of common stock upon exercise of stock options or restricted stock unit conversion. Under the 2012 Plan, the exercise price for stock options may not be less than the fair market value of the underlying stock at the date of grant. The 2012 Plan is scheduled to terminate on May 9, 2022. Options generally will expire no later than ten years after the date on which they are granted and will become exercisable as directed by the Compensation Committee of the Board of Directors and generally vest in equal annual installments over a five-year period. A SAR may be granted alone or in conjunction with an option or other award. Shares of restricted stock and restricted stock units may be issued under the 2012 Plan for such consideration as is determined by the Compensation Committee of the Board of Directors. As of December 31, 2013, the Company had stock options, restricted stock and restricted stock unit awards outstanding.

In May 2009, the Company's shareholders approved the 2009 Employee Stock Purchase Plan under which eligible employees may contribute up to 15% of their earnings toward the quarterly purchase of the Company's common stock. The plan makes available 0.9 million shares of the Company's common stock, which includes the remaining shares available under the 1996 Employee Stock Purchase Plan. As of December 31, 2013, 1.2 million shares have been issued under both the 2009 and 1996 Employee Stock Purchase Plans. Each plan period lasts

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

three months beginning on January 1, April 1, July 1 and October 1 of each year. The purchase price for each share of stock is the lesser of 90% of the market price on the first day of the plan period or 100% of the market price on the last day of the plan period. Stock-based compensation expense related to this plan was \$1 million for each of the years ended December 31, 2013, 2012 and 2011, respectively.

The Company accounts for stock-based compensation costs in accordance with the accounting standards for stock-based compensation, which require that all share-based payments to employees be recognized in the statements of operations based on their fair values. The Company recognizes the expense using the straight-line attribution method. The stock-based compensation expense recognized in the consolidated statements of operations is based on awards that ultimately are expected to vest; therefore, the amount of expense has been reduced for estimated forfeitures. The stock-based compensation accounting standards require forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. In addition, if the Company employs different assumptions in the application of these standards, the compensation expense that the Company records in the future periods may differ significantly from what the Company has recorded in the current period.

The consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011 include the following stock-based compensation expense related to stock option awards, restricted stock, restricted stock unit awards and the employee stock purchase plan (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cost of sales	\$ 2,523	\$ 2,694	\$ 2,566
Selling and administrative expenses	25,252	22,679	21,891
Research and development expenses	3,933	3,810	3,122
Total stock-based compensation	<u>\$31,708</u>	<u>\$29,183</u>	<u>\$27,579</u>

Stock Options

In determining the fair value of the stock options, the Company makes a variety of assumptions and estimates, including volatility measures, expected yields and expected stock option lives. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model. The Company uses implied volatility on its publicly-traded options as the basis for its estimate of expected volatility. The Company believes that implied volatility is the most appropriate indicator of expected volatility because it is generally reflective of historical volatility and expectations of how future volatility will differ from historical volatility. The expected life assumption for grants is based on historical experience for the population of non-qualified stock optionees. The risk-free interest rate is the yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximating the expected term used as the input to the Black-Scholes model. The relevant data used to determine the value of the stock options granted during 2013, 2012 and 2011 are as follows:

<u>Options Issued and Significant Assumptions Used to Estimate Option Fair Values</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Options issued in thousands	428	699	658
Risk-free interest rate	1.7%	1.0%	1.1%
Expected life in years	5	6	6
Expected volatility	0.248	0.265	0.376
Expected dividends	—	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>Weighted-Average Exercise Price and Fair Value of Options on the Date of Grant</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Exercise price	\$97.74	\$86.55	\$79.10
Fair value	\$27.37	\$23.97	\$29.67

The following table summarizes stock option activity for the plans for the year ended December 31, 2013 (in thousands, except per share data):

	<u>Number of Shares</u>	<u>Exercise Price per Share</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2012	4,809	\$23.19 to \$ 87.06	\$63.34
Granted	428	\$88.71 to \$103.47	\$97.74
Exercised	(1,281)	\$23.19 to \$ 79.15	\$50.89
Canceled	(39)	\$36.25 to \$ 79.15	\$72.42
Outstanding at December 31, 2013	<u>3,917</u>	\$33.12 to \$103.47	\$71.08

The following table details the weighted-average remaining contractual life of options outstanding at December 31, 2013 by range of exercise prices (in thousands, except per share data):

<u>Exercise Price Range</u>	<u>Number of Shares Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Remaining Contractual Life of Options Outstanding</u>	<u>Number of Shares Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$33.12 to \$48.99	901	\$43.85	2.4	898	\$43.88
\$49.00 to \$78.99	840	\$64.59	5.0	707	\$64.68
\$79.00 to \$103.47	<u>2,176</u>	\$84.86	8.4	<u>637</u>	\$80.63
Total	<u>3,917</u>	\$71.08	6.3	<u>2,242</u>	\$60.88

During 2013, 2012 and 2011, the total intrinsic value of the stock options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$64 million, \$31 million and \$67 million, respectively. The total cash received from the exercise of these stock options was \$64 million, \$24 million and \$56 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The aggregate intrinsic value of the outstanding stock options at December 31, 2013 was \$113 million. Options exercisable at December 31, 2013, 2012 and 2011 were 2.2 million, 2.9 million and 2.9 million, respectively. The weighted-average exercise prices of options exercisable at December 31, 2013, 2012 and 2011 were \$60.88, \$54.00 and \$47.95, respectively. The weighted-average remaining contractual life of the exercisable outstanding stock options at December 31, 2013 was 4.5 years.

At December 31, 2013, the Company had 3.9 million stock options which are vested and expected to vest. The intrinsic value, weighted-average price and remaining contractual life of the vested and expected to vest stock options were \$113 million, \$70.89 and 6.1 years, respectively, at December 31, 2013.

As of December 31, 2013, 2012 and 2011, there were \$40 million, \$45 million and \$45 million of total unrecognized compensation costs related to unvested stock option awards that are expected to vest. These costs are expected to be recognized over a weighted-average period of 3.4 years.

Restricted Stock

During each of the years ended December 31, 2013, 2012 and 2011, the Company granted 12 thousand shares of restricted stock. The weighted-average fair value per share on the grant date of the restricted stock granted in 2013, 2012 and 2011 was \$88.71, \$78.10 and \$61.63, respectively. The Company has recorded \$2 million, \$1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

million and \$1 million of compensation expense in each of the years ended December 31, 2013, 2012 and 2011, respectively, related to the restricted stock grants. As of December 31, 2013, the Company had 36 thousand unvested shares of restricted stock outstanding with a total of less than \$1 million of unrecognized compensation costs. These costs are expected to be recognized over a weighted-average period of 0.9 years.

Restricted Stock Units

The following table summarizes the unvested restricted stock unit award activity for the year ended December 31, 2013 (in thousands, except for per share amounts):

	Shares	Weighted-Average Price
Unvested at December 31, 2012	574	\$67.28
Granted	303	\$94.74
Vested	(207)	\$60.65
Forfeited	(28)	\$72.27
Unvested at December 31, 2013	<u>642</u>	<u>\$82.16</u>

Restricted stock units are generally issued annually in February and vest in equal annual installments over a five-year period. The amount of compensation costs recognized for the years ended December 31, 2013, 2012 and 2011 on the restricted stock units expected to vest were \$12 million, \$13 million and \$13 million, respectively. As of December 31, 2013, there were \$37 million of total unrecognized compensation costs related to the restricted stock unit awards that are expected to vest. These costs are expected to be recognized over a weighted-average period of 3.7 years.

13 Earnings Per Share

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

	Year Ended December 31, 2013		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	\$450,003	85,426	\$5.27
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,120	
Net income per diluted common share	<u>\$450,003</u>	<u>86,546</u>	<u>\$5.20</u>

	Year Ended December 31, 2012		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	\$461,443	87,841	\$5.25
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,138	
Net income per diluted common share	<u>\$461,443</u>	<u>88,979</u>	<u>\$5.19</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Year Ended December 31, 2011		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	\$432,968	90,833	\$4.77
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,492	
Net income per diluted common share	<u>\$432,968</u>	<u>92,325</u>	<u>\$4.69</u>

For the years ended December 31, 2013, 2012 and 2011, the Company had 1.1 million, 2.0 million and 1.3 million stock options that were antidilutive, respectively, due to having higher exercise prices than the Company's average stock price during the period. These securities were not included in the computation of diluted EPS. The effect of dilutive securities was calculated using the treasury stock method.

14 Retirement Plans

U.S. employees are eligible to participate in the Waters Employee Investment Plan, a 401(k) defined contribution plan, immediately upon hire. Employees may contribute from 1% to 30% of eligible pay on a pre-tax basis and the Company makes matching contributions of 100% for contributions up to 6% of eligible pay. Employees are 100% vested in employee and Company matching contributions. For the years ended December 31, 2013, 2012 and 2011, the Company's matching contributions amounted to \$13 million, \$12 million and \$12 million, respectively.

The Company maintains two defined benefit plans in the U.S. for which the pay credit accruals have been frozen, the Waters Retirement Plan and the Waters Retirement Restoration Plan (collectively, the "U.S. Pension Plans"). The Company also sponsors other employee benefit plans in the U.S., including a retiree healthcare plan, which provides reimbursement for medical expenses and is contributory. There are various employee benefit plans outside the United States (both defined benefit and defined contribution plans). Certain non-U.S. defined benefit plans ("Non-U.S. Pension Plans") are included in the disclosures below, which are required under the accounting standards for retirement benefits.

The Company contributed \$12 million, \$11 million and \$10 million in the years ended December 31, 2013, 2012 and 2011, respectively, to the non-U.S. plans (primarily defined contribution plans) which are currently outside of the scope of the required disclosures. The eligibility and vesting of non-U.S. plans are generally consistent with local laws and regulations.

The net periodic pension cost is made up of several components that reflect different aspects of the Company's financial arrangements as well as the cost of benefits earned by employees. These components are determined using the projected unit credit actuarial cost method and are based on certain actuarial assumptions. The Company's accounting policy is to reflect in the projected benefit obligation all benefit changes to which the Company is committed as of the current valuation date; use a market-related value of assets to determine pension expense; amortize increases in prior service costs on a straight-line basis over the expected future service of active participants as of the date such costs are first recognized; and amortize cumulative actuarial gains and losses in excess of 10% of the larger of the market-related value of plan assets and the projected benefit obligation over the expected future service of active participants.

Summary data for the U.S. Pension Plans, U.S. retiree healthcare plan and Non-U.S. Pension Plans are presented in the following tables, using the measurement dates of December 31, 2013 and 2012, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The reconciliation of the projected benefit obligations at December 31, 2013 and 2012 is as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Projected benefit obligation, January 1	\$145,047	\$10,788	\$64,857	\$136,256	\$ 9,146	\$29,195
Service cost	—	1,733	5,079	9	1,447	4,318
Interest cost	5,505	333	1,966	5,806	350	1,988
Actuarial (gains) losses	(13,328)	(1,292)	(925)	6,184	325	5,790
Benefits paid	(2,631)	(542)	(1,743)	(3,208)	(480)	(1,011)
Plan amendments	—	—	232	—	—	—
Other plans	—	—	227	—	—	25,041
Currency impact	—	—	(577)	—	—	(464)
Projected benefit obligation, December 31	<u>\$134,593</u>	<u>\$11,020</u>	<u>\$69,116</u>	<u>\$145,047</u>	<u>\$10,788</u>	<u>\$64,857</u>

The accumulated benefit obligations at December 31, 2013 and 2012 are as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Accumulated benefit obligation	\$134,592	**	\$58,471	\$145,045	**	\$55,937

** Not applicable.

The reconciliation of the fair value of the plan assets at December 31, 2013 and 2012 is as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Fair value of plan assets, January 1	\$106,572	\$5,357	\$35,859	\$ 91,610	\$4,319	\$12,798
Actual return on plan assets	19,755	693	1,948	11,761	516	1,007
Company contributions	4,820	290	4,104	6,409	275	4,243
Employee contributions	—	818	612	—	727	566
Benefits paid	(2,631)	(542)	(1,743)	(3,208)	(480)	(1,011)
Other plans	—	—	—	—	—	18,382
Currency impact	—	—	40	—	—	(126)
Fair value of plan assets, December 31	<u>\$128,516</u>	<u>\$6,616</u>	<u>\$40,820</u>	<u>\$106,572</u>	<u>\$5,357</u>	<u>\$35,859</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The summary of the funded status of the plans at December 31, 2013 and 2012 is as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Projected benefit obligation	\$(134,593)	\$(11,020)	\$(69,116)	\$(145,047)	\$(10,788)	\$(64,857)
Fair value of plan assets	128,516	6,616	40,820	106,572	5,357	35,859
Projected benefit obligation in excess of fair value of plan assets	<u>\$ (6,077)</u>	<u>\$ (4,404)</u>	<u>\$(28,296)</u>	<u>\$ (38,475)</u>	<u>\$ (5,431)</u>	<u>\$(28,998)</u>

The summary of the amounts recognized in the consolidated balance sheets for the plans at December 31, 2013 and 2012 is as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Long-term assets	\$ —	\$ —	\$ 1,370	\$ —	\$ —	\$ 1,407
Current liabilities	—	(262)	(193)	(140)	(283)	(175)
Long-term liabilities	(6,077)	(4,142)	(29,473)	(38,335)	(5,148)	(30,230)
Net amount recognized at December 31	<u>\$(6,077)</u>	<u>\$(4,404)</u>	<u>\$(28,296)</u>	<u>\$(38,475)</u>	<u>\$(5,431)</u>	<u>\$(28,998)</u>

The summary of the components of net periodic pension costs for the plans for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands):

	2013			2012			2011		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Service cost	\$ —	\$ 915	\$4,467	\$ 9	\$ 720	\$3,752	\$ 7	\$ 545	\$1,872
Interest cost	5,505	333	1,966	5,806	350	1,988	6,166	364	1,079
Expected return on plan assets	(8,034)	(355)	(901)	(7,619)	(287)	(838)	(7,443)	(277)	(313)
Net amortization:									
Prior service credit	—	(54)	(216)	—	(54)	(267)	—	(53)	(89)
Net actuarial loss	3,432	—	516	3,009	—	367	1,782	—	37
Net periodic pension cost . . .	<u>\$ 903</u>	<u>\$ 839</u>	<u>\$5,832</u>	<u>\$ 1,205</u>	<u>\$ 729</u>	<u>\$5,002</u>	<u>\$ 512</u>	<u>\$ 579</u>	<u>\$2,586</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The summary of the changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 is as follows (in thousands):

	2013			2012			2011		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Prior service cost	\$ —	\$ —	\$ 232	\$ —	\$ —	\$ —	\$ —	\$ —	\$(3,619)
Net (loss) gain arising during the year	(25,048)	(1,629)	(1,940)	2,042	96	5,622	23,170	546	481
Amortization:									
Prior service credit	—	54	216	—	54	267	—	53	89
Net loss	(3,432)	—	(516)	(3,009)	—	(367)	(1,782)	—	(37)
Other Plans	—	—	—	—	—	5,970	—	—	—
Currency impact	—	—	497	—	—	424	—	—	55
Total recognized in other comprehensive income (loss)	<u>\$(28,480)</u>	<u>\$(1,575)</u>	<u>\$(1,511)</u>	<u>\$ (967)</u>	<u>\$150</u>	<u>\$11,916</u>	<u>\$21,388</u>	<u>\$599</u>	<u>\$(3,031)</u>

The summary of the amounts included in accumulated other comprehensive (loss) income in stockholders' equity for the plans at December 31, 2013 and 2012 is as follows (in thousands):

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Net actuarial (loss) gain	\$(27,999)	\$1,233	\$(11,190)	\$(56,479)	\$(395)	\$(13,674)
Prior service credit	—	52	1,933	—	105	2,938
Total	<u>\$(27,999)</u>	<u>\$1,285</u>	<u>\$ (9,257)</u>	<u>\$(56,479)</u>	<u>\$(290)</u>	<u>\$(10,736)</u>

The summary of the amounts included in accumulated other comprehensive income (loss) expected to be included in next year's net periodic benefit cost for the plans at December 31, 2013 is as follows (in thousands):

	2013		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Net actuarial (loss) gain	\$(1,941)	\$16	\$(373)
Prior service credit	—	52	187
Total	<u>\$(1,941)</u>	<u>\$68</u>	<u>\$(186)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The plans' investment asset mix is as follow at December 31, 2013 and 2012:

	2013			2012		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Equity securities	75%	59%	0%	65%	57%	0%
Debt securities	24%	25%	0%	33%	22%	0%
Cash and cash equivalents	1%	16%	16%	2%	21%	17%
Insurance contracts and other	0%	0%	84%	0%	0%	83%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The plans' investment policies include the following asset allocation guidelines:

	U.S. Pension and U.S. Retiree Healthcare Plans		Non-U.S. Pension Plans
	Policy Target	Range	
Equity securities	60%	40% - 80%	0%
Debt securities	25%	20% - 60%	0%
Cash and cash equivalents	5%	0% - 20%	20%
Other	10%	0% - 20%	80%

The asset allocation policy for the U.S. Pension Plans and U.S. retiree healthcare plan was developed in consideration of the following long-term investment objectives: achieving a return on assets consistent with the investment policy, achieving portfolio returns which exceed the average return for similarly invested funds and maximizing portfolio returns with at least a return of 2.5% above the one-year constant maturity Treasury bond yield over reasonable measurement periods and based on reasonable market cycles.

Within the equity portfolio of the U.S. retirement plans, investments are diversified among market capitalization and investment strategy. The Company targets a 20% allocation of its U.S. retirement plans' equity portfolio to be invested in financial markets outside of the United States. The Company does not invest in its own stock within the U.S. retirement plans' assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of the Company's retirement plan assets are as follows at December 31, 2013 (in thousands):

	Total at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Pension Plans:				
Mutual funds ^(a)	\$117,718	\$117,718	\$ —	\$ —
Common stocks ^(b)	3,123	3,123	—	—
Cash equivalents ^(c)	650	—	650	—
Hedge funds ^(d)	7,025	—	—	7,025
Total U.S. Pension Plans	128,516	120,841	650	7,025
U.S. Retiree Healthcare Plan:				
Mutual funds ^(e)	5,589	5,589	—	—
Cash equivalents ^(c)	1,027	—	1,027	—
Total U.S. Retiree Healthcare Plan	6,616	5,589	1,027	—
Non-U.S. Pension Plans:				
Cash equivalents ^(c)	6,400	6,400	—	—
Bank and insurance investment contracts ^(f)	34,420	—	—	34,420
Total Non-U.S. Pension Plans	40,820	6,400	—	34,420
Total fair value of retirement plan assets	<u>\$175,952</u>	<u>\$132,830</u>	<u>\$1,677</u>	<u>\$41,445</u>

The fair value of the Company's retirement plan assets are as follows at December 31, 2012 (in thousands):

	Total at December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Pension Plans:				
Mutual funds ^(g)	\$ 93,061	\$ 92,830	\$ 231	\$ —
Common stocks ^(b)	4,886	4,886	—	—
Cash equivalents ^(c)	2,359	—	2,359	—
Hedge funds ^(d)	6,266	—	—	6,266
Total U.S. Pension Plans	106,572	97,716	2,590	6,266
U.S. Retiree Healthcare Plan:				
Mutual funds ^(h)	4,236	4,236	—	—
Cash equivalents ^(c)	1,121	—	1,121	—
Total U.S. Retiree Healthcare Plan	5,357	4,236	1,121	—
Non-U.S. Pension Plans:				
Cash equivalents ^(c)	6,162	6,162	—	—
Bank and insurance investment contracts ^(f)	29,697	—	—	29,697
Total Non-U.S. Pension Plans	35,859	6,162	—	29,697
Total fair value of retirement plan assets	<u>\$147,788</u>	<u>\$108,114</u>	<u>\$3,711</u>	<u>\$35,963</u>

- (a) The mutual fund balance in the U.S. Pension Plans are invested in the following categories: 41% in the common stock of large-cap U.S. companies, 33% in the common stock of international growth companies, and 26% in fixed income bonds issued by U.S. companies and by the U.S. government and its agencies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (b) Represents primarily amounts invested in common stock of technology, healthcare, financial, energy and consumer staples and discretionary U.S. companies.
- (c) Primarily represents money market funds held with various financial institutions.
- (d) Hedge fund invests in both short and long term U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from large to small capitalization stocks and from a net long position to a net short position.
- (e) The mutual fund balance in the U.S. Retiree Healthcare Plan is invested in the following categories: 58% in the common stock of large-cap U.S. companies, 12% in the common stock of international growth companies and 30% in fixed income bonds of U.S. companies and U.S. government.
- (f) Amount represents bank and insurance guaranteed investment contracts.
- (g) The mutual fund balance in the U.S. Pension Plans are invested in the following categories: 34% in the common stock of large-cap U.S. companies, 27% in the common stock of international growth companies, and 39% in fixed income bonds issued by U.S. companies and by the U.S. government and its agencies.
- (h) The mutual fund balance in the U.S. Retiree Healthcare Plan is invested in the following categories: 63% in the common stock of large-cap U.S. companies, 9% in the common stock of international growth companies and 28% in fixed income bonds of U.S. companies and U.S. government.

The following table summarizes the changes in fair value of the Level 3 retirement plan assets for the years ended December 31, 2013 and 2012 (in thousands):

	Total	Hedge Funds	Insurance Guaranteed Investment Contracts
Fair value of assets, December 31, 2011	\$13,057	\$6,018	\$ 7,039
Net purchases (sales) and appreciation (depreciation)	4,524	248	4,276
Other Plans	18,382	—	18,382
Fair value of assets, December 31, 2012	35,963	6,266	29,697
Net purchases (sales) and appreciation (depreciation)	5,482	759	4,723
Fair value of assets, December 31, 2013	<u>\$41,445</u>	<u>\$7,025</u>	<u>\$34,420</u>

The weighted-average assumptions used to determine the benefit obligation in the consolidated balance sheets at December 31, 2013, 2012 and 2011 are as follows:

	2013		2012		2011	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	4.82%	3.29%	3.90%	3.10%	4.33%	3.29%
Increases in compensation levels	4.75%	2.54%	4.75%	2.59%	4.75%	2.91%

The weighted-average assumptions used to determine the net periodic pension cost at December 31, 2013, 2012 and 2011 are as follows:

	2013		2012		2011	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	3.61%	3.10%	4.26%	3.29%	5.10%	3.63%
Return on plan assets	6.94%	2.40%	7.12%	1.88%	7.20%	2.50%
Increases in compensation levels	4.75%	2.59%	4.75%	2.91%	4.75%	2.90%

To develop the expected long-term rate of return on assets assumption, the Company considered historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio and historical expenses paid by the plan. A one-quarter percentage point increase in the assumed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

long-term rate of return on assets 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.

During fiscal year 2014, the Company expects to contribute a total of approximately \$8 million to \$10 million to the Company's defined benefit plans. Estimated future benefit payments as of December 31, 2013 are as follows (in thousands):

	U.S. Pension and Retiree Healthcare Plans	Non-U.S. Pension Plans	Total
2014	\$ 7,162	\$ 982	\$ 8,144
2015	7,191	1,176	8,367
2016	7,516	3,236	10,752
2017	8,097	1,844	9,941
2018	8,654	1,841	10,495
2019 - 2023	55,140	14,750	69,890

15 Business Segment Information

The accounting standards for segment reporting establish standards for reporting information about operating segments in annual financial statements and require selected information for those segments to be presented in interim financial reports of public business enterprises. They also establish standards for related disclosures about products and services, geographic areas and major customers. 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.

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

Net sales for the Company's products and services are as follows for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Product net sales:			
Waters instrument systems	\$ 840,608	\$ 828,458	\$ 878,367
Chemistry	304,130	294,787	292,506
TA instrument systems	167,765	157,262	151,263
Total product sales	1,312,503	1,280,507	1,322,136
Service net sales:			
Waters service	532,323	509,412	480,553
TA service	59,392	53,722	48,495
Total service sales	591,715	563,134	529,048
Total net sales	<u>\$1,904,218</u>	<u>\$1,843,641</u>	<u>\$1,851,184</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Geographic sales information is presented below for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Sales:			
United States	\$ 557,734	\$ 531,912	\$ 530,606
Europe	573,786	549,341	574,770
Asia:			
China	240,535	212,701	175,409
Japan	170,115	207,340	211,893
Asia Other	216,229	215,612	222,082
Total Asia	626,879	635,653	609,384
Other	145,819	126,735	136,424
Total net sales	<u>\$1,904,218</u>	<u>\$1,843,641</u>	<u>\$1,851,184</u>

The Other category includes Canada, Latin America and Puerto Rico. Net sales are attributable to geographic areas based on the region of destination. None of the Company's individual customers accounts for more than 2% of annual Company sales.

Long-lived assets information at December 31, 2013 and 2012 is presented below (in thousands):

	<u>2013</u>	<u>2012</u>
Long-lived assets:		
United States	\$174,143	\$173,932
Europe	138,962	89,389
Asia	10,412	8,467
Other	1,415	1,491
Total long-lived assets	<u>\$324,932</u>	<u>\$273,279</u>

The Other category includes Canada, Latin America and Puerto Rico. Long-lived assets exclude goodwill, other intangible assets and other assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16 Unaudited Quarterly Results

The Company's unaudited quarterly results are summarized below (in thousands, except per share data):

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$430,338	\$451,115	\$457,317	\$565,448	\$1,904,218
Cost of sales	174,568	188,329	191,568	228,991	783,456
Gross profit	255,770	262,786	265,749	336,457	1,120,762
Selling and administrative expenses	118,660	123,062	120,563	130,680	492,965
Research and development expenses	25,312	24,650	23,599	26,975	100,536
Purchased intangibles amortization	2,393	2,382	2,518	2,625	9,918
Operating income	109,405	112,692	119,069	176,177	517,343
Other expense (Note 3)	—	(1,575)	—	—	(1,575)
Interest expense	(7,185)	(7,580)	(7,358)	(7,927)	(30,050)
Interest income	1,187	1,179	946	1,075	4,387
Income from operations before income taxes	103,407	104,716	112,657	169,325	490,105
Provision for income tax (benefit) expense	(17,652)	15,402	14,609	27,743	40,102
Net income	\$121,059	\$ 89,314	\$ 98,048	\$141,582	\$ 450,003
Net income per basic common share	1.41	1.04	1.15	1.67	5.27
Weighted-average number of basic common shares	86,049	85,482	85,185	85,006	85,426
Net income per diluted common share	1.39	1.03	1.14	1.65	5.20
Weighted-average number of diluted common shares and equivalents	87,215	86,576	86,364	86,017	86,546
2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$420,458	\$451,465	\$449,952	\$521,766	\$1,843,641
Cost of sales	167,290	179,259	182,702	208,363	737,614
Gross profit	253,168	272,206	267,250	313,403	1,106,027
Selling and administrative expenses	117,119	122,682	115,322	122,147	477,270
Research and development expenses	23,347	23,943	23,756	24,958	96,004
Purchased intangibles amortization	2,485	2,458	6,427	2,459	13,829
Litigation provisions	—	3,000	—	4,434	7,434
Operating income	110,217	120,123	121,745	159,405	511,490
Interest expense	(6,491)	(6,878)	(7,107)	(7,597)	(28,073)
Interest income	769	1,031	1,184	1,224	4,208
Income from operations before income taxes	104,495	114,276	115,822	153,032	487,625
Provision for income tax expense (benefit)	15,829	16,552	16,713	(22,912)	26,182
Net income	\$ 88,666	\$ 97,724	\$ 99,109	\$175,944	\$ 461,443
Net income per basic common share	1.00	1.11	1.13	2.03	5.25
Weighted-average number of basic common shares	88,992	88,317	87,411	86,712	87,841
Net income per diluted common share	0.98	1.09	1.12	2.00	5.19
Weighted-average number of diluted common shares and equivalents	90,269	89,381	88,451	87,851	88,979

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company typically experiences an increase in sales in the fourth quarter, as a result of purchasing habits for capital goods of customers that tend to exhaust their spending budgets by calendar year end. Selling and administrative expenses are typically higher in the second and third quarters over the first quarter in each year as the Company's annual payroll merit increases take effect. Selling and administrative expenses will vary in the fourth quarter in relation to performance in the quarter and for the year.

In the first quarter of 2013, the Company recorded 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 is included in the annual effective tax rate (see Note 9). The Company recorded litigation provisions in the second and fourth quarters of 2012 for damages and fees estimated to be incurred in connection with complaints filed against the Company relating to patent infringement lawsuits (see Note 10). In the third quarter of 2012, the Company incurred a one-time \$4 million charge to purchased intangibles amortization expense related to the discontinuance of a product trade name intangible asset (see Note 7). In the fourth quarter of 2012, the Company recorded a \$36 million tax benefit related to the reduction in a deferred tax asset valuation reserve associated with the Company's refinancing of certain of its inter-company debt arrangements, which enabled the Company to recognize a deferred tax asset associated with a non-U.S. net operating loss carryforward (see Note 9). In the fourth quarter of 2012, the Company also recorded a \$6 million tax benefit related to tax audit settlements in the U.S.

Item 9: *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A: *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer (principal executive and principal financial officer), with the participation of management, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013 (1) to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, to allow timely decisions regarding the required disclosure and (2) to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

See Management's Report on Internal Control Over Financial Reporting in Item 8 on page 39 of this Form 10-K.

Report of the Independent Registered Public Accounting Firm

See the report of PricewaterhouseCoopers LLP in Item 8 on page 40 of this Form 10-K.

Changes in Internal Controls Over Financial Reporting

No change was identified in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B: *Other Information*

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Information regarding the Company's directors is contained in the definitive proxy statement for the 2014 Annual Meeting of Stockholders under the headings "Election of Directors", "Directors Meetings and Board Committees", "Corporate Governance", "Report of the Audit Committee of the Board of Directors" and "Compensation of Directors and Executive Officers". Information regarding compliance with Section 16(a) of the Exchange Act is contained in the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders under the heading "Section 16(A) Beneficial Ownership Reporting Compliance." Information regarding the Company's Audit Committee and Audit Committee Financial Expert is contained in the definitive proxy statement for the 2014 Annual Meeting of Stockholders under the headings "Report of the Audit Committee of the Board of Directors" and "Directors Meetings and Board Committees". Such information is incorporated herein by reference. Information regarding the Company's executive officers is contained in Part I of this Form 10-K.

The Company has adopted a Code of Business Conduct and Ethics (the "Code") that applies to all of the Company's employees (including its executive officers) and directors and that is in compliance with Item 406 of Regulation S-K. The Code has been distributed to all employees of the Company. In addition, the Code is available on the Company's website, www.waters.com, under the caption "Governance". The Company intends to satisfy the disclosure requirement regarding any amendment to, or waiver of a provision of, the Code applicable to any executive officer or director by posting such information on its website. The Company shall also provide to any person without charge, upon request, a copy of the Code. Any such request must be made in writing to the Secretary of the Company, c/o Waters Corporation, 34 Maple Street, Milford, MA 01757.

The Company's corporate governance guidelines and the charters of the audit committee, compensation committee, and nominating and corporate governance committee of the Board of Directors are available on the Company's website, www.waters.com, under the caption "Governance". The Company shall provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to the Secretary of the Company, c/o Waters Corporation, 34 Maple Street, Milford, MA 01757.

The Company has not made any material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Item 11: Executive Compensation

This information is contained in the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders under the headings "Compensation of Directors and Executive Officers", "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report". Such information is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except for the Equity Compensation Plan information set forth below, this information is contained in the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders under the heading "Security Ownership of Certain Beneficial Owners and Management". Such information is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2013 about the Company's common stock that may be issued upon the exercise of options, warrants, and rights under its existing equity compensation plans (in thousands):

	A	B	C
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	3,917	\$71.08	5,857
Equity compensation plans not approved by security holders	—	—	—
Total	<u>3,917</u>	<u>\$71.08</u>	<u>5,857</u>

See Note 12, Stock-Based Compensation, in the Notes to Consolidated Financial Statements for a description of the material features of the Company's equity compensation plans.

Item 13: *Certain Relationships and Related Transactions and Director Independence*

This information is contained in the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders under the headings "Directors Meetings and Board Committees", "Corporate Governance" and "Compensation of Directors and Executive Officers". Such information is incorporated herein by reference.

Item 14: *Principal Accountant Fees and Services*

This information is contained in the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders under the headings "Ratification of Selection of Independent Registered Public Accounting Firm" and "Report of the Audit Committee of the Board of Directors". Such information is incorporated herein by reference.

PART IV

Item 15: *Exhibits, Financial Statement Schedules*

(a) Documents filed as part of this report:

(1) Financial Statements:

The consolidated financial statements of the Company and its subsidiaries are filed as part of this Form 10-K and are set forth on pages 41 to 79. The report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, dated February 27, 2014, is set forth on page 40 of this Form 10-K.

(2) Financial Statement Schedule:

See (c) below.

(3) Exhibits:

<u>Exhibit Number</u>	<u>Description of Document</u>
3.1	Second Amended and Restated Certificate of Incorporation of Waters Corporation.(1)
3.2	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, dated as of May 12, 1999.(3)
3.3	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, dated as of July 27, 2000.(4)
3.4	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, dated as of May 25, 2001.(5)
3.5	Amended and Restated Bylaws of Waters Corporation, dated as of October 16, 2013.(20)
10.1	Waters Corporation Retirement Plan.(2)(*)
10.2	Waters Corporation 2003 Equity Incentive Plan.(6)(*)
10.3	First Amendment to the Waters Corporation 2003 Equity Incentive Plan.(7)(*)
10.4	Form of Director Stock Option Agreement under the Waters Corporation 2003 Equity Incentive Plan, as amended.(8)(*)
10.5	Form of Director Restricted Stock Agreement under the Waters Corporation 2003 Equity Incentive Plan, as amended.(8)(*)
10.6	Form of Executive Officer Stock Option Agreement under the Waters Corporation 2003 Equity Incentive Plan, as amended.(8)(*)
10.7	Second Amendment to the Waters Corporation 2003 Equity Incentive Plan.(9)(*)
10.8	Third Amendment to the Waters Corporation 2003 Equity Incentive Plan.(10)(*)
10.9	Amended and Restated Waters 401(k) Restoration Plan, effective January 1, 2008.(11)(*)
10.10	Change of Control/Severance Agreement, dated as of February 27, 2008, between Waters Corporation and Mark T. Beaudouin.(12)(*)
10.11	Change of Control/Severance Agreement, dated as of February 27, 2008, between Waters Corporation and Douglas A. Berthiaume.(12)(*)
10.12	Change of Control/Severance Agreement, dated as of February 27, 2008, between Waters Corporation and Arthur G. Caputo.(12)(*)

<u>Exhibit Number</u>	<u>Description of Document</u>
10.13	Change of Control/Severance Agreement, dated as of February 27, 2008, between Waters Corporation and John Ornell.(12)(*)
10.14	Change of Control/Severance Agreement, dated as of February 27, 2008, between Waters Corporation and Elizabeth B. Rae.(12)(*)
10.15	Amended and Restated Waters Retirement Restoration Plan, effective January 1, 2008.(13)(*)
10.16	Amended and Restated Waters Corporation 1996 Non-Employee Director Deferred Compensation Plan, Effective January 1, 2008.(13)(*)
10.17	2008 Waters Corporation Management Incentive Plan.(13)(*)
10.18	Waters Corporation 2009 Employee Stock Purchase Plan (14)(*)
10.19	Note Purchase Agreement, dated as of February 1, 2010, between Waters Corporation and the purchases named therein.(15)
10.20	First Amendment to the Note Purchase Agreement, dated as of February 1, 2010.(16)
10.21	Note Purchase Agreement, dated March 15, 2011, between Waters Corporation and the purchases named therein.(16)
10.22	Waters Corporation 2012 Equity Incentive Plan.(17)(*)
10.23	Form of Waters 2012 Stock Option Agreement—Executive Officers.(18)(*)
10.24	Form of Waters 2012 Stock Option Agreement—Directors.(18)(*)
10.25	Form of Waters 2012 Restricted Stock Agreement—Directors.(18)(*)
10.26	Credit Agreement, dated as of June 25, 2013, among Waters Corporation, JPMorgan Chase Bank, N.A., JP Morgan Europe Limited and other Lenders party thereto.(19)
10.27	Form of Waters 2012 Restricted Stock Unit Agreement for Executive Officers—Five Year Vesting.(21)(*)
10.28	Form of Waters 2012 Restricted Stock Unit Agreement for Executive Officers—One Year Vesting.(21)(*)
21.1	Subsidiaries of Waters Corporation.
23.1	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm.
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(**)
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(**)
101	The following materials from Waters Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders’ Equity and (vi) Notes to Consolidated Financial Statements.

(1) Incorporated by reference to the Registrant’s Report on Form 10-K dated March 29, 1996 (File No. 001-14010).

- (2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-96934).
- (3) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 11, 1999 (File No. 001-14010).
- (4) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 8, 2000 (File No. 001-14010).
- (5) Incorporated by reference to the Registrant's Report on Form 10-K dated March 28, 2002 (File No. 001-14010).
- (6) Incorporated by reference to the Registrant's Report on Form S-8 dated November 20, 2003 (File No. 333-110613).
- (7) Incorporated by reference to the Registrant's Report on Form 10-K dated March 12, 2004 (File No. 001-14010).
- (8) Incorporated by reference to the Registrant's Report on Form 10-Q dated November 10, 2004 (File No. 001-14010).
- (9) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 5, 2005 (File No. 001-14010).
- (10) Incorporated by reference to the Registrant's Report on Form 10-K dated March 1, 2007 (File No. 001-14010).
- (11) Incorporated by reference to the Registrant's Report on Form 10-Q dated November 2, 2007 (File No. 001-14010).
- (12) Incorporated by reference to the Registrant's Report on Form 10-K dated February 29, 2008 (File No. 001-14010).
- (13) Incorporated by reference to the Registrant's Report on Form 10-K dated February 27, 2009 (File No. 001-14010).
- (14) Incorporated by reference to the Registrant's Report on Form S-8 dated July 10, 2009 (File No. 333-160507).
- (15) Incorporated by reference to the Registrant's Report on Form 10-K dated February 26, 2010 (File No. 001-14010).
- (16) Incorporated by reference to the Registrant's Report on Form 10-Q dated May 6, 2011 (File No. 001-14010).
- (17) Incorporated by reference to the Registrant's Report on Form S-8 dated September 5, 2012 (File No. 333-183721).
- (18) Incorporated by reference to the Registrant's Report on Form 8-K dated December 11, 2012 (File No. 001-14010).
- (19) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 1, 2013 (File No. 001-14010).
- (20) Incorporated by reference to the Registrant's Report on Form 10-Q dated November 1, 2013 (File No. 001-14010).
- (21) Incorporated by reference to the Registrant's Report on Form 8-K dated December 11, 2013 (File No. 001-14010).
- (*) Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.
- (**) This exhibit shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any filing, except to the extent the Company specifically incorporates it by reference.

(b) See Item 15 (a) (3) above.

(c) Financial Statement Schedule:

WATERS CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For each of the three years in the period ended December 31, 2013

	<u>Balance at Beginning of Period</u>	<u>Charged to Provision for Income Taxes*</u>	<u>Amounts Recorded in Additional Paid- In Capital**</u>	<u>Balance at End of Period</u>
Valuation allowance for deferred tax assets:				
2013	\$93,576	\$ 484	\$ 892	\$94,952
2012	\$10,248	\$80,974	\$2,354	\$93,576
2011	\$10,361	\$ 63	\$ (176)	\$10,248

* These amounts have been recorded as part of the income statement provision for income taxes. The income statement effects of these amounts have largely been offset by amounts related to changes in other deferred tax balance sheet accounts.

** During the years ended December 31, 2013 and 2012, the Company recorded amounts associated with the tax benefit related to stock option plans in additional paid-in capital. During the year ended December 31, 2011, the Company released valuation allowances on a portion of the deferred tax assets created by the tax benefit related to stock option plans that had been previously established in additional paid-in capital.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATERS CORPORATION

/s/ EUGENE G. CASSIS

Eugene G. Cassis
Corporate Vice President and
Chief Financial Officer

Date: February 27, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2014.

<p>/s/ DOUGLAS A. BERTHIAUME</p> <hr/> <p>Douglas A. Berthiaume</p>	<p>Chairman of the Board of Directors, President and Chief Executive Officer (principal executive officer)</p>
<p>/s/ EUGENE G. CASSIS</p> <hr/> <p>Eugene G. Cassis</p>	<p>Corporate Vice President and Chief Financial Officer (principal financial officer)</p>
<p>/s/ JOSHUA BEKENSTEIN</p> <hr/> <p>Joshua Bekenstein</p>	<p>Director</p>
<p>/s/ DR. MICHAEL J. BERENDT</p> <hr/> <p>Dr. Michael J. Berendt</p>	<p>Director</p>
<p>/s/ EDWARD CONARD</p> <hr/> <p>Edward Conard</p>	<p>Director</p>
<p>/s/ DR. LAURIE H. GLIMCHER</p> <hr/> <p>Dr. Laurie H. Glimcher</p>	<p>Director</p>
<p>/s/ CHRISTOPHER A. KUEBLER</p> <hr/> <p>Christopher A. Kuebler</p>	<p>Director</p>
<p>/s/ WILLIAM J. MILLER</p> <hr/> <p>William J. Miller</p>	<p>Director</p>
<p>/s/ JOANN A. REED</p> <hr/> <p>JoAnn A. Reed</p>	<p>Director</p>
<p>/s/ THOMAS P. SALICE</p> <hr/> <p>Thomas P. Salice</p>	<p>Director</p>

Waters

**NOTICE AND PROXY STATEMENT
2014**

Waters

April 4, 2014

Dear Stockholder:

On behalf of the Board of Directors of Waters Corporation (“Waters” or the “Company”), I cordially invite you to attend the Annual Meeting of Stockholders (the “Meeting”) of the Company to be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757 on May 15, 2014 at 11:00 a.m., local time.

The notice of Meeting, the Proxy Statement and proxy card from Waters are enclosed. You may also read the notice of Meeting, the Proxy Statement and the Waters Annual Report (“Annual Report”) on the Internet at <http://www.proxydocs.com/wat>.

Waters has adopted the Securities and Exchange Commission rule allowing companies to furnish proxy materials to their stockholders over the Internet. We believe that this e-proxy process expedites stockholders’ receipt of proxy materials, lowers the costs and reduces the environmental impact of our annual meeting. On April 4, 2014, we mailed to stockholders a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access our Proxy Statement and Annual Report and vote by Internet. The Notice contains instructions on how you can (i) receive a paper copy of the Proxy Statement and Annual Report, if you only received a Notice by mail, or (ii) elect to receive your Proxy Statement and Annual Report over the Internet.

The matters scheduled to be considered at the Meeting are (i) to elect directors to serve for the ensuing year and until their successors are elected, (ii) to ratify the selection of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2014, (iii) to approve, by non-binding vote, executive compensation, (iv) to approve the Company’s Management Incentive Plan and, (v) to consider and act upon any other matters which may properly come before the Meeting or any adjournment thereof. These matters are more fully explained in the Proxy Statement that you are encouraged to read in its entirety.

The Company’s Board of Directors values and encourages stockholder participation at the Meeting. It is important that your shares be represented, whether or not you plan to attend the Meeting. Please take a moment to vote on the Internet, by telephone, or if you receive a paper copy of the Proxy Statement and Annual Report, sign, date and return your proxy card in the envelope provided even if you plan to attend the Meeting.

We hope you will be able to attend the Meeting.

Sincerely,



Douglas A. Berthiaume
*Chairman, President and
Chief Executive Officer*

Waters

WATERS CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders (the "Meeting") of Waters Corporation ("Waters" or the "Company") will be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757 on May 15, 2014 at 11:00 a.m., local time, for the following purposes:

1. To elect directors to serve for the ensuing year and until their successors are elected;
2. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014;
3. To approve, by non-binding vote, executive compensation;
4. To approve the Company's Management Incentive Plan; and,
5. To consider and act upon any other matters which may properly come before the Meeting or any adjournment thereof.

In accordance with the provisions of the Company's bylaws, the Company's Board of Directors has fixed the close of business on March 21, 2014 as the record date for the determination of the holders of common stock entitled to notice of and to vote at the Meeting.

The Proxy Statement and Annual Report and the means to vote by Internet are available at <http://www.proxydocs.com/wat>.

By order of the Board of Directors



Mark T. Beaudouin
Vice President
General Counsel and Secretary

Milford, Massachusetts
April 4, 2014

TABLE OF CONTENTS

	<u>Page</u>
Electronic Delivery of Waters Stockholder Communications	2
Voting	3
Proxy Statement	4
Voting Matters	4
Matters to be Acted Upon	5
Proposal 1 — Election of Directors	5
Proposal 2 — Ratification of Selection of Independent Registered Public Accounting Firm	7
Proposal 3 — Non-Binding Vote on Executive Compensation	8
Proposal 4 — Approve the Company’s Management Incentive Plan	9
Proposal 5 — Other Business	11
Directors Meetings and Board Committees	11
Corporate Governance	12
Report of the Audit Committee of the Board of Directors	16
Compensation Committee Interlocks and Insider Participation	18
Risk Oversight	18
Compensation of Directors and Executive Officers	20
Compensation Committee Report	39
Security Ownership of Certain Beneficial Owners and Management	40
Section 16(a) Beneficial Ownership Reporting Compliance	41
Stockholder Proposals	41
Stockholders Sharing an Address	42
Exhibit A — Waters Corporation Management Incentive Plan	43

ELECTRONIC DELIVERY OF WATERS STOCKHOLDER COMMUNICATIONS

Notice of Electronic Availability of Proxy Statement and Annual Report

As permitted by Securities and Exchange Commission (“SEC”) rules, Waters is making this Proxy Statement and its Annual Report available to its stockholders electronically via the Internet. On April 4, 2014, we mailed to our stockholders a Notice of Internet Availability of Proxy Materials (“Notice”) containing instructions on how to access this Proxy Statement and our Annual Report and vote by Internet. If you received the Notice by mail, you *will not* receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the Proxy Statement and Annual Report electronically or to receive a printed version in the mail. The Notice also instructs you on how you may submit your proxy over the Internet or in person at the Meeting.

Important Notice Regarding Availability of Proxy Materials:

The Proxy Statement and Annual Report are available at <http://www.proxydocs.com/wat>.

Whether or not you expect to attend the Meeting in person, we urge you to vote your shares by phone, via the Internet, or, if you receive a paper copy of the Proxy Statement and Annual Report, by signing, dating, and returning the proxy card by mail at your earliest convenience. This will ensure the presence of a quorum at the Meeting. Promptly voting your shares will save us the expense and extra work of additional solicitation. Submitting your proxy now will not prevent you from voting your stock at the Meeting if you want to do so, as your vote by proxy is revocable at your option.

VOTING

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Meeting in person. Stockholders have three options for submitting their votes: (1) via the Internet, (2) by phone or (3) by mail, using a paper proxy card. If you have Internet access, we encourage you to record your vote on the Internet. It is convenient for you, and it saves the Company significant postage and processing costs. In addition, when you vote via the Internet or by telephone prior to the Meeting date, your vote is recorded immediately and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted. Refer to your Notice, or the email you received for electronic delivery of the Proxy Statement for further instructions on voting.

VOTE BY INTERNET

<http://www.proxypush.com/wat>

24 hours a day/7 days a week

Use the Internet to vote your Proxy. Have your proxy card in hand when you access the website.

VOTE BY TELEPHONE

866-307-0858

toll-free 24 hours
a day/7 days a week

Use any touch-tone telephone to vote your Proxy. Have your proxy card in hand when you call.

VOTE BY MAIL

Mark, sign, and date the proxy card and return it in the enclosed postage- paid envelope.

If you vote your proxy by Internet or by telephone, please do NOT mail back the proxy card. You can access, view and download this year's Proxy Statement and Annual Report at <http://www.proxydocs.com/wat>.

WATERS CORPORATION
34 Maple Street
Milford, Massachusetts 01757

PROXY STATEMENT
Annual Meeting of Stockholders
May 15, 2014, 11:00 a.m.

This Proxy Statement is being furnished by the Board of Directors (the “Board”) of Waters Corporation (“Waters” or the “Company”), in connection with the Board’s solicitation of proxies (each a “Proxy” and, collectively, “Proxies”), for use at the 2014 Annual Meeting of Stockholders (the “Meeting”) to be held on May 15, 2014 at 11:00 a.m., local time, at the Company’s headquarters located at 34 Maple Street, Milford, Massachusetts 01757. Solicitation of Proxies, which is being made by the Board, may be made through officers and regular employees of the Company by telephone or by oral communications with stockholders following the original solicitation. No additional compensation will be paid to officers or regular employees for such Proxy solicitation. The Company has retained Alliance Advisors, LLC to do a broker solicitation for a fee of \$7,000, plus reasonable out-of-pocket expenses. Expenses incurred in connection with the solicitation of Proxies will be borne by the Company.

VOTING MATTERS

The representation in person or by Proxy of a majority of the outstanding shares of common stock of the Company, par value \$.01 per share, entitled to vote at the Meeting is necessary to provide a quorum for the transaction of business at the Meeting. Shares can only be voted if a stockholder is present in person, has voted via the Internet or by telephone, or is represented by a properly signed Proxy. Each stockholder’s vote is very important. Whether or not you plan to attend the Meeting in person, please vote over the Internet, by telephone or sign and promptly return the Proxy card, which requires no additional postage if mailed in the United States. All signed and returned Proxies will be counted towards establishing a quorum for the Meeting, regardless of how the shares are voted.

Shares represented by Proxy will be voted in accordance with your instructions. You may specify how you want your shares to be voted by voting on the Internet, by telephone, or marking the appropriate box on the Proxy card. If your Proxy card is signed and returned without specifying how you want your shares to be voted, your shares will be voted as recommended by the Board, or as the individuals named as Proxy holders on the Proxy deem advisable on all other matters as may properly come before the Meeting. The Proxy will be voted at the Meeting if the signer of the Proxy was a stockholder of record on March 21, 2014 (the “Record Date”).

Any stockholder voting by Proxy has the power to revoke the Proxy prior to its exercise either by voting by ballot at the Meeting, by executing a later-dated Proxy or by delivering a signed written notice of the revocation to the office of the Secretary of the Company at 34 Maple Street, Milford, Massachusetts 01757 before the Meeting begins.

Representatives of the Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP, are expected to be present at the Meeting. They will have the opportunity to make statements if they desire to do so and will be available to respond to appropriate questions.

As of the Record Date, there were 84,763,662 shares of common stock outstanding and entitled to vote at the Meeting. Each outstanding share of common stock is entitled to one vote. This Proxy Statement and form of Proxy is first being made available to the stockholders of record on or about April 4, 2014. A list of the stockholders entitled to vote at the Meeting will be available for inspection at the Meeting and for ten days prior to the Meeting at the Company’s headquarters for proper purposes relating to the Meeting.

MATTERS TO BE ACTED UPON

PROPOSAL 1. ELECTION OF DIRECTORS

Nine members of the Board (the “Directors”) are to be elected at the Meeting, each to hold office until his or her successor is elected and qualified or until his or her earlier resignation, death or removal. It is intended that the Proxies in the form enclosed with this Proxy Statement will be voted for the nominees set forth below unless stockholders specify to the contrary in their Proxies or specifically abstain from voting on this matter.

The following information pertains to the nominees, their ages, principal occupations and other public directorships for at least the last five years, and information regarding their specific experience, qualifications, attributes or skills that led to the conclusion that each such person should serve as a Director of the Company in light of the Company’s business and structure.

Douglas A. Berthiaume, 65, has served as Chairman of the Board since February 1996 and has served as President, Chief Executive Officer and a Director of the Company since August 1994 (except from January 2002 to March 2003, during which time he did not serve as President). From 1990 to 1994, Mr. Berthiaume served as President of the Waters Chromatography Division of Millipore Corporation, the predecessor business of the Company, which was purchased in 1994. Mr. Berthiaume is the Chairman of the Children’s Hospital Trust Board, and a trustee of the Children’s Hospital Medical Center and The University of Massachusetts Amherst Foundation. Through more than 25 years direct work experience at Waters and its predecessor company, Millipore, and as a Director of Genzyme Corporation, Mr. Berthiaume brings to the Waters Board significant experience in both the business and technical issues facing life science/biotechnology companies.

Joshua Bekenstein, 55, has served as a Director of the Company since August 1994. Mr. Bekenstein is a Managing Director of Bain Capital, LLC, where he has worked since its inception in 1984. Mr. Bekenstein is a Director of Bombardier Recreational Products, Inc., Toys’R’Us, Bright Horizons Family Solutions, Inc., Dollarama, Michaels Stores, Inc., Burlington Coat Factory Warehouse Corporation and Gymboree. Mr. Bekenstein’s many years of experience both as a senior executive of a large investment firm and as a director of companies in various business sectors makes him highly qualified to serve on the Waters Board.

Michael J. Berendt, Ph.D., 65, has served as a Director of the Company since March 1998. Dr. Berendt is the Chief Executive Officer and a Director of Bioniche Lifesciences Inc., a position he assumed in November 2013. From July 2011 to November 2013, Dr. Berendt was a Life Sciences Consultant. From March 2006 to July 2011, Dr. Berendt served as the President and Chief Executive Officer of Aegea Therapeutics Inc. From August 2004 to December 2005, Dr. Berendt served as Managing Director of Research Corporation Technologies. From November 2000 to August 2004, Dr. Berendt served as Managing Director of AEA Investors. Dr. Berendt also worked for 18 years, from 1982 to 2000, in the pharmaceutical industry where he served in a number of senior management positions including Senior Vice President of Research for the Pharmaceutical Division of Bayer Corporation, and a Group Director of Drug Discovery at Pfizer, Inc. Dr. Berendt has served as a director of Onyx Pharmaceuticals, Myriad Genetics, Inc., Catalyst Biosciences and Northstar Neuroscience. Dr. Berendt’s experience in the pharmaceutical industry both from a management and a scientific perspective provides unique technical insight to the Waters Board.

Edward Conard, 57, has served as a Director of the Company since August 1994. Mr. Conard is an independent director and investor. He was a Managing Director of Bain Capital, LLC from March 1993 to December 2007. Mr. Conard was previously a Director of Wasserstein Perella and Company, an investment banking firm that specializes in mergers and acquisitions, and a Vice President of Bain & Company heading up the firm’s operations practice area. Mr. Conard is also a Director of Unisource Worldwide, Inc. His years of experience as a director and a managing director of two large investment firms affords the Waters Board the benefit of Mr. Conard’s considerable financial, accounting and business strategy skills.

Laurie H. Glimcher, M.D., 62, has served as a Director of the Company since January 1998. Dr. Glimcher is the Stephen and Suzanne Weiss Dean of the Weill Cornell Medical College and Provost for Medical Affairs of Cornell University. From 1991 through 2011, Dr. Glimcher served as the Irene Heinz Given Professor of Immunology at the Harvard School of Public Health and Professor of Medicine at Harvard Medical School.

Dr. Glimcher is a Director of Bristol-Myers Squibb Company. She is a Fellow of the American Academy of Arts and Sciences and a member of the National Academy of Sciences and the Institutes of Medicine of the National Academy of Sciences. As a physician, scientist and professor, Dr. Glimcher brings a diversity of technical skills and experience to the Waters Board.

Christopher A. Kuebler, 60, has served as a Director of the Company since May 2006. Mr. Kuebler is an independent director and investor. He served as Chairman and CEO of Covance Inc., and its predecessor companies from November 1994 to December 2004 and as Chairman during 2005. Prior to joining Covance Inc., Mr. Kuebler spent nearly 20 years in the pharmaceutical industry at Abbott Laboratories, Squibb Inc. and Monsanto Health Care. Mr. Kuebler is a Director of Nektar Therapeutics. With 30 years of experience in the pharmaceutical and pharmaceutical service industries, including 10 years as Chairman and Chief Executive Officer of Covance Inc., Mr. Kuebler brings an experienced management perspective to the Waters Board.

William J. Miller, 68, has served as a Director of the Company since January 1998. Mr. Miller is an independent director and investor. From April 1996 to November 1999, Mr. Miller served as Chief Executive Officer and Chairman of the Board of Directors of Avid Corporation, where from September 1996 to January 1999 he served as President. From March 1992 to September 1995, Mr. Miller served as Chief Executive Officer of Quantum Corporation. From May 1992 to September 1995, Mr. Miller served as a member of the Board of Directors of Quantum Corporation and from September 1993 to August 1995, he served as Chairman of its Board of Directors. From 1981 to March 1992, he served in various positions at Control Data Corporation, most recently as Executive Vice President and President, Information Services. Mr. Miller served as a Director of Viewsonic Corporation from January 2004 to April 2008 and Overland Storage, Inc. from June 2006 to September 2009. Mr. Miller is a Director of Nvidia Corporation, Digimarc Corporation, and Glu Mobile Inc. Mr. Miller's extensive experience as a former chief executive officer, director, and investor brings both management and stockholder perspectives to the Waters Board.

JoAnn A. Reed, 58, has served as a Director of the Company since May 2006. Ms. Reed is a health care services consultant. From April 2008 to April 2009, she was an advisor to the Chief Executive Officer of Medco Health Solutions. From 2002 to March 2008, Ms. Reed served as Senior Vice President, Finance and Chief Financial Officer of Medco Health Solutions. From 1992 to 2002, she served as Senior Vice President, Finance of Medco Health Solutions. She joined Medco Containment Services, Inc. in 1988. Her prior experience includes employment with CBS, Inc., Aetna/American Re-insurance Co., Standard and Poor's, and Unisys/Timeplex. Ms. Reed is a director of American Tower, Mallinckrodt PLC and Health Management Associates and a trustee of St. Mary's College of Notre Dame. Ms. Reed's extensive experience as a senior financial executive provides the Waters Board with significant accounting, finance and health care industry expertise.

Thomas P. Salice, 54, has served as a Director of the Company since July 1994. Mr. Salice is a co-founder and managing member of SFW Capital Partners, LLC, a private equity firm. He has served as a Managing Member of SFW Capital Partners since January 2005. From June 1989 to December 2004, Mr. Salice served in a variety of capacities with AEA Investors, Inc., including Managing Director, President and Chief Executive Officer and Vice-Chairman. Mr. Salice is a Director of Mettler-Toledo International, Inc., and the privately held companies Agknowledge Holdings Company, Inc., Industrial Dynamics Holdings, Inc., MD Buyline, Inc. and Spectro Inc. With more than 20 years of experience in the private equity business, Mr. Salice brings to the Waters Board in-depth experience in strategic planning, finance, capital structure and mergers and acquisitions.

Required Vote and Recommendation of the Board of Directors

With respect to the election of Directors of the Company, a nominee for director shall be elected to the Board by a majority vote (i.e. the votes cast for such nominee exceed the votes cast against such nominee), except that Directors will be elected by plurality vote at any meeting of stockholders for which the number of nominees exceeds the number of directors to be elected. If an incumbent director fails to be re-elected by a majority vote when such a vote is required and offers to resign, and if that resignation is not accepted by the Board, such director shall continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier resignation or removal. If an incumbent director's resignation is accepted by the Board, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board, in

its sole discretion, may fill any resulting vacancy. “Abstentions” and shares with respect to which a broker or representative does not vote on a particular matter because it does not have discretionary voting authority on that matter (so-called “broker non-votes”) will be counted as present for the purpose of determining whether a quorum is present but will not be treated as shares cast with respect to any nominee and therefore will not have an effect on the determination of whether a nominee has been elected.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” EACH NOMINEE FOR DIRECTOR SET FORTH ABOVE.

PROPOSAL 2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected PricewaterhouseCoopers LLP (“PWC”), an independent registered public accounting firm, to audit the books, records and accounts of the Company for the fiscal year ending December 31, 2014. In accordance with a vote of the Audit Committee and as approved by the Board, this selection is being presented to the stockholders for ratification at the Meeting.

Required Vote and Recommendation of the Board of Directors

The affirmative vote of a majority of the shares present at the Meeting in person or represented by Proxy and entitled to vote on the matter is required to approve the proposal. Abstentions will be counted as present for the purpose of determining whether a quorum is present and will be treated as shares present and entitled to vote, but will not be treated as an affirmative vote in favor of the proposal and therefore will have the effect of a vote against the proposal. Ratification by stockholders is not required. If this Proposal 2 is not approved by the stockholders, the Audit Committee does not intend to change the appointment for fiscal year 2014, but will consider the stockholder vote in selecting an independent registered public accounting firm for fiscal year 2015.

Fees

The aggregate fees for the fiscal years ended December 31, 2013 and December 31, 2012 billed by the Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP, were as follows:

	<u>2013</u>	<u>2012</u>
Audit Fees	\$3,633,502	\$3,441,262
Audit-Related Fees	34,250	31,670
Tax Related Fees		
Tax Compliance	456,150	326,600
Tax Planning	287,600	429,500
Total Tax Related Fees	743,750	756,100
All Other Fees	-0-	-0-
Total	\$4,411,502	\$4,229,032

Audit Fees — consists of fees for the audit of the Company’s annual financial statements, review of the interim condensed consolidated financial statements included in quarterly reports, assistance with review of documents filed with the SEC, and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation.

Audit-Related Fees — consists of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s consolidated financial statements and are not reported under “Audit Fees”. These services include statutory audits, employee benefit plan audits, acquisition-related services, attest services not required by statute or regulation, and accounting consultations and reviews for various matters.

Tax Related Fees — consists of fees for tax compliance and planning services. Tax compliance fees include fees for professional services related to international tax compliance and preparation. Tax planning fees consist primarily of fees including but not limited to, the impact of acquisitions, restructurings and changes in regulations.

All Other Fees — consists of fees for all permissible services other than those reported above.

The Audit Committee pre-approved 100% of the services listed under the preceding captions “Audit Fees”, “Audit-Related Fees,” “Tax Related Fees” and “All Other Fees.” The Audit Committee’s pre-approval policies and procedures are more fully described in its report set forth in this Proxy Statement.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL 3. NON-BINDING VOTE ON EXECUTIVE COMPENSATION

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the stockholders of Waters are entitled to cast an advisory vote at the Meeting to approve the compensation of the Company’s named executive officers, as disclosed in this proxy statement. Pursuant to the Dodd-Frank Act, the stockholder vote is an advisory vote only and is not binding on Waters or its Board.

Although the vote is non-binding, the Compensation Committee and the Board value your opinions and will consider the outcome of the vote in establishing compensation philosophy and making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis, in the Summary Compensation Table and subsequent tables, the Company’s named executive officers are compensated in a manner consistent with our business strategy, competitive practice, sound compensation governance principles, and stockholder interests and concerns.

- Our compensation policies and decisions are focused on pay-for-performance.
- Annual performance targets represent challenging operational and financial goals.
- Named executive officers have had an annual performance target of 15% non-GAAP earnings per diluted share (“E.P.S.”) growth for 2013 and the prior seventeen years.
- Target non-GAAP E.P.S. performance of 15% growth has been achieved in twelve of the past eighteen years and Waters has delivered an annual compounded non-GAAP E.P.S. growth rate of 15% over the past ten years.
- In 2013, neither the target of 15% non-GAAP E.P.S. growth nor the threshold of 7% non-GAAP E.P.S. growth were met resulting in no annual bonus payments to named executive officers for 2013.

A description of GAAP to non-GAAP items can be found below the caption, Compensation of Directors and Executive Officers, Elements of Executive Compensation, *Annual Incentive*. A reconciliation of GAAP to non-GAAP E.P.S. and non-GAAP operating income can be found on the Company’s web-site at <http://www.waters.com> under the caption “Investors” and copies may be obtained, without charge, upon written request to the Company, c/o Vice President, Investor Relations, 34 Maple Street, Milford, MA 01757.

Waters also has several compensation governance programs in place as described in the Compensation Discussion and Analysis to manage compensation risk and align Waters’ executive compensation with long-term stockholder interests. These programs include:

- stock ownership guidelines;
- an independent compensation committee and compensation committee consultant;
- a compensation recoupment policy; and
- a balanced program that does not include perquisites and guaranteed payments as a significant source of compensation

We are requesting your non-binding vote on the following resolution: “Resolved, that the compensation of the Company’s named executive officers as described in the Compensation Discussion and Analysis, in the Summary Compensation Table and subsequent tables, is approved.”

Required Vote and Recommendation of the Board of Directors

The affirmative vote of a majority of the shares of Waters common stock present or represented by Proxy and voting at the Meeting, is required for approval, on an advisory basis, of this proposal. If you own shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this proposal.

Abstentions will have the effect of a vote “against” this proposal. Broker non-votes will have no effect on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RESOLUTION.

PROPOSAL 4. APPROVE THE COMPANY’S MANAGEMENT INCENTIVE PLAN

We are requesting that the stockholders vote in favor of approving the Company’s Management Incentive Plan (the “MIP”) which was adopted by the Compensation Committee on March 4, 2014 and approved by the Board on March 4, 2014. A copy of the MIP is attached as Exhibit A to this Proxy Statement and is incorporated herein by reference. We encourage you to read the MIP in its entirety. By voting in favor of this proposal, you will be voting to approve the material terms of the MIP for purposes of qualifying awards thereunder as performance-based compensation under Section 162(m) of the Internal Revenue Code (the “Code”).

The purposes of the MIP are to (i) align the interests of eligible employees with the Company’s stockholders, (ii) motivate eligible employees to achieve annual financial and operating targets, (iii) provide increasing levels of incentive plan payout opportunity consistent with increasing levels of annual financial performance, (iv) enhance individual accountability for goal achievement and align employee interests and objectives worldwide, and (v) attract and retain key employees.

The MIP may be administered by the Compensation Committee of the Board or by the Board directly. The Compensation Committee has the discretion, subject to the provisions of the MIP, to make or to select the manner of making all determinations with respect to the MIP. Further, the Compensation Committee has complete authority to interpret the MIP, to prescribe, amend and rescind rules and regulations relating to it, and to make all other determinations necessary or advisable for the administration of the MIP.

Executive officers and employees of the Company and its affiliates are eligible to participate in the MIP, subject to designation by the Compensation Committee. Five executive officers and 600 employees are currently eligible to participate in the MIP. MIP participants will be eligible to receive awards as determined by the Compensation Committee in its sole discretion, and will receive payments pursuant to awards based upon the degree of achievement of performance goals.

Amounts which would be payable in the future under the MIP cannot be determined because they are contingent upon the attainment of pre-established performance goals, the outcome of which is substantially uncertain at the time the performance goals are established. Similarly, as the performance goals established by the Compensation Committee pursuant to the MIP are applicable only to a specific year, the amount that would have been paid in the prior fiscal year to eligible participants in the MIP is not determinable.

Qualified performance-based awards are awards which include performance criteria intended to satisfy Section 162(m) of the Code. Section 162(m) of the Code limits the Company’s federal income tax deduction for compensation to certain specified senior executives to \$1 million, but excludes from that limit “performance-based compensation.” Accordingly, qualified performance-based awards will be subject to satisfaction of one of the following criteria (the “Performance Criteria”), either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or affiliate, either individually, alternatively, or in any combination, and measured quarterly, semiannually, annually or cumulatively over a period of years, on an

absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Compensation Committee in the award: cash flow (before or after dividends); earnings per share (including, without limitation, earnings before interest, taxes, depreciation and amortization); stock price; return on equity; stockholder return or total stockholder return; return on capital (including without limitation return on total capital or return on invested capital); return on investment; return on assets or net assets; market capitalization; economic value added; debt leverage (debt to capital); revenue; sales or net sales; backlog; income, pre-tax income or net income; operating income or pre-tax profit; operating profit, net operating profit or economic profit; gross margin, operating margin or profit margin; return on operating revenue or return on operating assets; cash from operations; operating ratio; operating revenue; market share improvement; general and administrative expenses; or customer service.

No payment or other amount will be available to a recipient of a qualified performance-based award except upon the Compensation Committee's determination that a particular goal or goals established by the Compensation Committee for the criteria (from among those specified above) selected by the Compensation Committee have been satisfied. The maximum qualified performance-based award payment to any one participant for a performance period is \$7,500,000.

Generally, if a participant's employment with the Company or any affiliate is terminated for any reason prior to the last day of a performance period, then the participant will forfeit the award and will not become entitled to any payment thereunder. If, however, a participant's employment is terminated during the performance period due to death, disability or retirement, then the Committee may, in its sole discretion and only to the extent permitted by the terms of the MIP, authorize the Company to make payment, in full or on a prorated basis, pursuant to an award.

In the event of any corporate action (including but not limited to a merger or consolidation of the Company with or into another entity, a sale, transfer, or other disposition of all or substantially all of the Company's assets to one or more other persons in a single transaction or series of related transactions, a liquidation or dissolution of the Company, a reorganization, a recapitalization, a reclassification, a stock dividend, a stock split, a reverse stock split, or other similar distribution), the Compensation Committee may make such adjustment of outstanding awards and their terms, if any, as it, in its sole discretion, may deem equitable and appropriate in the circumstances. In addition, the Compensation Committee may make adjustments in the terms and conditions of, and the Performance Criteria included in awards in recognition of unusual or nonrecurring events (including, without limitation, the events described above) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Compensation Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the MIP.

Generally the Board may amend or modify the MIP at any time subject to the rights of holders of outstanding awards on the date of amendment or modification.

The following is a brief and general discussion of the United States federal income tax consequences to recipients of awards granted under the MIP. This summary is not comprehensive and is based upon laws and regulations in effect on March 31, 2014. Such laws and regulations are subject to change. This summary is intended for the information of stockholders considering how to vote and not as tax guidance to participants in the MIP. Participants in the MIP should consult their own tax advisors as to the tax consequences of participation.

A participant will generally recognize ordinary income on receipt of payment in satisfaction of an award. In general, whenever a participant is required to recognize ordinary income in connection with an award, the Company will be entitled to a corresponding tax deduction. However, the Company will not be entitled to deductions in connection with awards under the MIP to certain senior executive officers to the extent that the amount of deductible income in a year to any such officer, together with his or her other compensation from the Company exceeds the \$1 million limitation of Section 162(m) of the Code. Compensation which qualifies as "performance-based" is not subject to this limitation, however.

For purposes of the foregoing summary, we assumed that no award under the MIP will be considered "deferred compensation" as that term is defined for purposes of recent federal tax legislation governing non-

qualified deferred compensation arrangements, Section 409A of the Code, or, if any award were considered to any extent to constitute deferred compensation, its terms would comply with the requirements of that legislation (in general, by limiting any flexibility in the time of payment). If an award includes deferred compensation, and its terms do not comply with the requirements of the legislation, then any deferred compensation component of an award under the MIP will be taxable when it is earned and vested (even if not then payable) and the recipient will be subject to a 20% additional tax.

Although the foregoing summarizes the essential features of the MIP, it is qualified in its entirety by reference to the full text of the MIP as attached.

Approval of the proposal to approve the MIP will require an affirmative vote of a majority of the outstanding shares of Common Stock of the Company represented in person or by proxy at the Meeting and entitled to vote. Abstentions and Broker Non-Votes will be counted as present for the purpose of determining whether a quorum is present and will be treated as shares present and entitled to vote, but will not be treated as an affirmative vote in favor of the proposal and therefore will have the effect of a vote against the proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE PROPOSAL TO APPROVE THE COMPANY’S MANAGEMENT INCENTIVE PLAN

PROPOSAL 5. OTHER BUSINESS

The Board does not know of any other business to be presented at the Meeting. If any other matters properly come before the Meeting, however, it is intended that the persons named in the enclosed form of Proxy will vote said Proxy in accordance with their best judgment.

DIRECTORS MEETINGS AND BOARD COMMITTEES

Meetings

The Board held seven meetings during the year ended December 31, 2013. The Board has determined that each Director other than Mr. Berthiaume, the Company’s Chairman, President and Chief Executive Officer, has no material relationship with the Company and otherwise qualifies as “independent” under applicable listing standards of the New York Stock Exchange and the Company’s independence criteria, which are summarized under “Corporate Governance – Board/Director Independence” below.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee currently consists of Dr. Michael J. Berendt (Chair), Dr. Laurie H. Glimcher, and Mr. Thomas P. Salice. The responsibilities of the Nominating and Corporate Governance Committee include the recruitment and recommendation of candidates for the Board. The Nominating and Corporate Governance Committee may, as it deems appropriate, give consideration to any candidates suggested by the stockholders of the Company. The Nominating and Corporate Governance Committee also develops and recommends to the Board the Corporate Governance Guidelines for the Company. The charter of the Nominating and Corporate Governance Committee, which sets forth all of the Nominating and Corporate Governance Committee’s functions, is available on the Company’s website at <http://www.waters.com> under the caption “Corporate Governance”. Each member of the Nominating and Corporate Governance Committee is independent under applicable listing standards of the New York Stock Exchange and the Company’s independence criteria, which are summarized under “Corporate Governance – Board/Director Independence” below.

Audit Committee

The Audit Committee, which currently consists of Mr. Thomas P. Salice (Chair), Mr. Edward Conard, Mr. William J. Miller and Ms. JoAnn A. Reed, oversees the activities of the Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP. The Audit Committee meets the definition of “Audit Committee” as defined in Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Audit Committee engages the independent registered public accounting firm, and

performs certain other functions pursuant to its charter, a copy of which is available on the Company's website at <http://www.waters.com> under the caption "Corporate Governance". Each member of the Audit Committee is independent under SEC rules and the applicable listing standards of the New York Stock Exchange and the Company's independence criteria, which are summarized under "Corporate Governance – Board/Director Independence" below. The Board has determined that each of the four members of the Audit Committee – Messrs. Salice, Conard and Miller and Ms. Reed – is an "audit committee financial expert" within the meaning of the SEC rules and has "accounting or related financial management expertise" within the meaning of New York Stock Exchange rules.

Compensation Committee

The Compensation Committee, which currently consists of Mr. William J. Miller (Chair), Mr. Joshua Bekenstein, Mr. Christopher A. Kuebler and Mr. Thomas P. Salice, approves the compensation of executives of the Company, makes recommendations to the Board with respect to standards for setting compensation levels and administers the Company's incentive plans. The Compensation Committee's charter is available on the Company's website at <http://www.waters.com> under the caption "Corporate Governance". Each member of the Compensation Committee is independent under applicable listing standards of the New York Stock Exchange and the Company's independence criteria, which are summarized under "Corporate Governance – Board/Director Independence" below.

During fiscal year 2013, each of the Company's Directors attended in excess of 75% of the aggregate of the meetings of the Board and the meetings of committees of the Board of which such Director was a member. During fiscal year 2013, the Compensation Committee met two times, the Audit Committee met seven times and the Nominating and Corporate Governance Committee met two times. The Company does not have a formal policy, but encourages Director attendance at annual stockholder meetings. All but one Director attended the 2013 annual meeting of stockholders.

CORPORATE GOVERNANCE

Annual Evaluation

During 2013, the Nominating and Corporate Governance Committee of the Board conducted its annual evaluation of the Board and each of its committees. The evaluation, in the form of a questionnaire, was circulated to all members of the Board and each committee in November 2013. The Company's General Counsel received all of the questionnaires, compiled the results and circulated them to the Board and each committee for discussion and analysis during January 2014. It is the intention of the Nominating and Corporate Governance Committee to continue to engage in this process annually.

Related Party Transactions Policy

The Board has adopted a Related Party Transactions Policy, which covers "Interested Transactions" between a "Related Party" or parties and the Company. An Interested Transaction is a transaction or arrangement in which the aggregate amount involved will or may be expected to exceed \$120,000 in any calendar year and in which the Company and/or any Related Party may have an interest. A Related Party includes an executive officer, director or nominee for election as a director of the Company, any holder of more than a 5% beneficial ownership interest in the Company, any immediate family member of any of the foregoing or any firm, corporation or entity in which any of the foregoing persons is employed or is a general partner or principal or in which such person or persons collectively have a 10% or greater beneficial ownership interest.

Pursuant to the policy, the General Counsel is responsible for identifying potential Interested Transactions and determining whether a proposed transaction is an Interested Transaction and accordingly, reportable to the Nominating and Corporate Governance Committee for consideration at its next regularly scheduled meeting. The Nominating and Corporate Governance Committee will review the material facts of all Interested Transactions and report its recommendations to the Board which will either approve or disapprove the Interested Transaction.

The Nominating and Corporate Governance Committee and the Board have reviewed and determined that certain categories of Interested Transactions are deemed to be pre-approved or ratified (as applicable) by the Board under the terms of the policy. These are: (a) the employment and compensation arrangements of named executive officers (as defined below) required to be reported in the Company's Proxy Statement; (b) Director compensation required to be reported in the Company's Proxy Statement; (c) ordinary course charitable contributions periodically reviewed by the Compensation Committee of the Board; and (d) ordinary course business transactions conducted on an "arm's length" basis with Bristol-Myers Squibb Corporation (of which Dr. Glimcher is a director).

Equity Ownership Guidelines

Increasingly, stockholders of public companies are focusing on the amount of equity ownership by directors and officers of the companies in which they invest. In order to more closely align the interests of the Company's stockholders with those of management, the Company has minimum stock ownership guidelines for Directors and named executive officers. These guidelines provide for the accumulation by anyone who holds the Chief Executive Officer position of common stock equal to five times his base salary over a three-year period. Additionally, the Company's named executive officers in 2013, Messrs. Caputo, Ornell and Beaudouin and Ms. Rae, are each required to accumulate common stock equal to two times their base salary over a five-year period. Pursuant to the guidelines, members of the Board are required to accumulate a minimum of 5,000 shares of common stock of the Company over a five year period.

If, after the initial three or five year period of accumulation, as the case may be, any such executive officer shall become non-compliant with the guidelines, he or she shall have a period of twelve (12) months to again come into compliance with the guidelines. If, after such twelve month period, the named executive officer remains non-compliant, then, with respect to any subsequent exercise of a stock option by such executive officer, 50% of such executive's net after tax profit from such exercise must be retained in shares of common stock until compliance with the guidelines is achieved. Exceptions to these equity ownership guidelines may be considered by the Nominating and Corporate Governance Committee with respect to individual financial situations of current or future executives covered by the guidelines. For purposes of the accumulation of shares of common stock to comply with these guidelines, in addition to any direct ownership of shares of common stock by an executive officer or Director, any shares of restricted stock and vested in-the-money stock options, which either were or will be granted by the Company to such executives or Directors, apply toward the satisfaction of the guidelines. The ownership guidelines have been met by all Directors and named executive officers.

Board Leadership Structure

As stated in the Company's Corporate Governance guidelines, the Board has no set policy with respect to the separation of the offices of Chairman and Chief Executive Officer, but instead makes a particular determination in the context of selecting a chief executive officer. Douglas A. Berthiaume has served as both Chairman of the Board and Chief Executive Officer since 1996.

Since 2004, Thomas P. Salice, an independent director, has served as the Board's "lead director". In that capacity, he presides over executive sessions of the non-management Directors of the Board and provides a focal point for and facilitates communication among non-management Directors, Company management and Company stockholders.

The Board believes that, during the tenure of Mr. Berthiaume, combining the offices of Chairman of the Board and Chief Executive Officer has served the Company well, fostering strong and consistent leadership. The lead independent director facilitates an appropriate balance between such leadership and independent and effective oversight of the Company's affairs.

Majority Voting

The Company's by-laws provide for majority voting for Directors in uncontested elections. A further description of the Company's majority voting provisions can be found under "Proposal 1. Election of Directors" herein.

Guidelines and Code of Conduct

The Board has adopted Corporate Governance Guidelines, a Code of Business Conduct and Ethics for employees, executive officers and Directors and a “whistleblower” policy regarding the treatment of complaints on accounting, internal accounting controls and auditing matters. All of these documents are available on the Company’s website at <http://www.waters.com> under the caption “Corporate Governance” and copies may be obtained, without charge, upon written request to the Company, c/o Secretary, 34 Maple Street, Milford, MA 01757.

Policy Against Hedging

In 2013, The Board adopted a policy prohibiting Directors, Officers and certain key employees from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset any decrease in market value of equity securities of the Company. This prohibition does not apply to any bona fide pledge of equity securities of the Company, not made for the purpose of hedging.

Succession Planning

In August, 2013, the Company announced that Douglas A. Berthiaume, the Company’s Chairman, President and Chief Executive Officer, had decided to retire from the Company before the end of 2015. The Board of Directors of the Company established a Succession Planning Committee (the “Committee”) to guide the process of selecting a successor to Mr. Berthiaume. The Committee is comprised of the Company’s Lead Director, Thomas P. Salice as well as William J. Miller and Christopher A. Kuebler. The Committee has retained an executive search firm to assist in this Succession Planning process.

Board Candidates

With respect to potential candidates to serve on the Board, the Nominating and Corporate Governance Committee considers suggestions from a variety of sources, including stockholders. Any nominations of candidates, together with appropriate biographical information, should be submitted in accordance with the Company’s by-laws to the Company, c/o Secretary, 34 Maple Street, Milford, MA 01757.

The Nominating and Corporate Governance Committee believes that candidates for service as a Director of the Company should meet certain minimum qualifications. In selecting Directors, the Board seeks individuals who are highly accomplished in their respective fields, with superior educational and professional credentials. Candidates should satisfy the Company’s independence criteria, which are part of its Corporate Governance Guidelines and summarized below and the applicable listing standards of the New York Stock Exchange. In assessing candidates for Director, the Nominating and Corporate Governance Committee will consider their skills, experience and diversity in the context of the overall composition of the Board.

The Company has a process for identifying and selecting candidates for Board membership. Initially, the Chairman/CEO, the Nominating and Corporate Governance Committee or other Board members identify a need to either expand the Board with a new member possessing certain specific characteristics or to fill a vacancy on the Board. A search is then undertaken by the Nominating and Corporate Governance Committee, working with recommendations and input from Board members, members of senior management, professional contacts, external advisors, nominations by stockholders and/or the retention of a professional search firm, if necessary. An initial slate of candidates is identified that will satisfy the criteria for Board membership and is presented to the Nominating and Corporate Governance Committee for review. Upon review by the Nominating and Corporate Governance Committee, a series of interviews of one or more candidates is conducted by the Chairman/CEO and at least one member of the Nominating and Corporate Governance Committee. During this process, the full Board is informally apprised of the status of the search and its input is solicited.

Upon identification of a final candidate, the entire Nominating and Corporate Governance Committee will meet to consider the credentials of the candidate and thereafter, if approved, will submit the candidate for approval by the full Board.

As noted above, the Nominating and Corporate Governance Committee, in assessing candidates for director, considers their skills, experience and diversity in the context of the Board's overall composition. The Company does not, however, have a specific policy with respect to the consideration of diversity in identifying director nominees.

Board/Director Independence

The Company's Corporate Governance Guidelines also include criteria adopted by the Board to assist it in making determinations regarding the independence of its members. The criteria, summarized below, are consistent with the New York Stock Exchange listing standards regarding director independence. To be considered independent, the Board must determine that a director does not have a material relationship, directly or indirectly, with the Company. A director will not be considered independent if he or she, or an immediate family member, has been within the last three years:

- an executive officer of the Company;
- a current partner or employee of an internal or external auditor of the Company or a partner or employee of an internal or external auditor of the Company who personally worked on the Company's audit;
- an executive officer of a public company that was on the compensation committee of its board;
- a paid advisor or consultant to the Company receiving in excess of \$100,000 per year in direct compensation from the Company (other than fees for service as a director) within the past three years or has an immediate family member who has been a paid advisor or consultant to the Company; and
- an employee (or in the case of an immediate family member, an executive officer) of a company that does business with the Company and the annual payments to or from the Company exceeded the greater of \$1 million or 2% of the other company's annual gross revenues.

In addition, a director will not be considered independent if he or she, or an immediate family member, has been an executive officer of a tax-exempt entity that receives contributions in any fiscal year from the Company exceeding the greater of \$1 million or 2% of its gross revenues. A director also will not be considered independent if he or she has an immediate family member who is a current employee of an internal or external auditor of the Company who participates in such firm's audit, assurance or tax compliance practice.

The Board has determined that each Director, other than Mr. Berthiaume, the Company's Chairman, President and Chief Executive Officer, has no material relationship with the Company and otherwise qualifies as "independent" under applicable listing standards of the New York Stock Exchange.

Stockholder and Board Communications

With respect to communications with the Board on general matters, stockholders and interested parties may communicate directly with the lead director or with the non-management Directors as a group by writing to Waters Corporation, c/o Secretary, 34 Maple Street, Milford, Massachusetts 01757. Any such communication should include the name and return address of the stockholder, the specific Director or Directors to whom the contact is addressed and the nature or subject matter of the contact. All communication will be sent directly to the appropriate Board member.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The information contained in this report shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Waters specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Exchange Act.

During 2013, the Audit Committee of the Board, in conjunction with management and PricewaterhouseCoopers LLP, the Company’s independent registered public accounting firm, focused on the following items:

1. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Act”) and the adequacy of Company internal controls;
2. The appropriateness of Company financial reporting and accounting processes;
3. The independence and performance of the Company’s independent registered public accounting firm;
4. Company compliance with laws and regulations, including compliance with applicable provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and
5. Review of the Company’s independent registered public accounting firm’s quality control procedures.

The Company retains Ernst & Young LLP to assist in elements of continuing compliance with Section 404 of the Act. The Company’s compliance with Section 404 of the Act is managed primarily by the Company’s Vice President, Audit & Risk Management in conjunction with the Company’s Chief Financial Officer and its Vice President, Corporate Controller. During 2013, the Audit Committee received regular and detailed briefings from the Company’s Vice President, Audit & Risk Management and PricewaterhouseCoopers LLP regarding the Company’s compliance with Section 404 of the Act. On February 24, 2014, the Company’s Vice President, Audit & Risk Management and PricewaterhouseCoopers LLP reported to the Audit Committee that no material weaknesses had been identified in the Company’s internal controls over financial reporting as of December 31, 2013.

The Board has adopted a written charter setting out more specifically the functions that the Audit Committee is to perform. The charter is reviewed on an annual basis by the Audit Committee and the Audit Committee is advised as to any corporate governance developments which may warrant charter amendments. No such charter amendments were made in 2013. The charter is available on the Company’s website at <http://www.waters.com> under the caption “Corporate Governance”. A discussion of the Audit Committee’s role in risk oversight can be found under the heading Risk Oversight — Board’s Role in Risk Oversight Generally below.

As stated in its charter, the Audit Committee is tasked with, among other things, reviewing with management the Company’s guidelines and policies with respect to its approach to risk assessment and risk management. In addition, major financial risk exposures and means of monitoring and controlling these exposures, is to be discussed with management.

The Audit Committee held seven meetings during the fiscal year ended December 31, 2013. The Audit Committee reviewed on a quarterly basis, with members of the Company’s management team, the Company’s quarterly and annual financial results prior to the release of earnings and the filing of the Company’s quarterly and annual financial statements with the SEC. The Board has determined that each of the four current members of the Audit Committee — Mr. Salice (Chair), Mr. Conard, Mr. Miller and Ms. Reed — is an “audit committee financial expert” as defined under applicable rules and regulations of the SEC and has “accounting or related financial management expertise” within the meaning of the New York Stock Exchange rules. Company management has primary responsibility for the financial statements and reporting processes. The Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP, audits the annual financial statements and is responsible for expressing an opinion on their conformity with generally accepted accounting principles.

The Audit Committee has adopted the following guidelines regarding the engagement of PricewaterhouseCoopers LLP to perform non-audit services for the Company:

Company management will submit to the Audit Committee for approval a list of non-audit services that it recommends the Audit Committee engage its independent registered public accounting firm to provide from time

to time during the fiscal year and an estimated amount of fees associated with such services. Company management and the Company's independent registered public accounting firm will each confirm to the Audit Committee that each non-audit service on the list is permissible under all applicable legal requirements. The Audit Committee will, in its discretion, either approve or disapprove both the list of permissible non-audit services and the estimated fees for such services. The Audit Committee will be informed routinely as to the non-audit services actually provided by the Company's independent registered public accounting firm pursuant to this pre-approval process and the actual expenditure of fees associated therewith as well as new non-audit services being requested for approval.

To ensure prompt handling of unexpected matters, the Audit Committee delegates to its Chairman the authority to amend or modify the list of approved permissible non-audit services and fees. The Chairman will report action taken to the Audit Committee at the next Audit Committee meeting.

PricewaterhouseCoopers LLP and the Company ensure that all audit and non-audit services provided to the Company have been pre-approved by the Audit Committee.

The Audit Committee hereby reports for the fiscal year ended December 31, 2013 that:

1. It has reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2013 with Company management;
2. It has reviewed and discussed with PricewaterhouseCoopers LLP those matters required to be communicated by PricewaterhouseCoopers LLP to the Audit committee, including under Auditing Standard No. 16, as adopted by the Public Company Accounting Oversight Board ("PCAOB");
3. It has received from PricewaterhouseCoopers LLP written disclosures and a letter required by the applicable requirements of the PCAOB regarding PricewaterhouseCoopers LLP's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP its independence;
4. It has considered whether, and determined that, the provision of non-audit services to the Company by PricewaterhouseCoopers LLP as set forth below, was compatible with maintaining auditor independence; and
5. It has reviewed and discussed with PricewaterhouseCoopers LLP its internal quality control procedures, and any material issues raised by the most recent internal quality control review, or peer review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years.

Based on the items reported above, on February 24, 2014, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the SEC. The recommendation was accepted by the Board on the same date.

Mr. Thomas P. Salice

Mr. Edward Conard

Mr. William J. Miller

Ms. JoAnn A. Reed

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee currently consists of Mr. Joshua Bekenstein, Mr. Christopher A. Kuebler, Mr. William J. Miller (Chair), and Mr. Thomas P. Salice. During fiscal year 2013, no member of the Compensation Committee was an officer or employee of the Company or served as a member of the Board or Compensation Committee of any entity that has one or more executive officers serving as members of the Waters Board or its Compensation Committee and no executive officer of the Company served on the Compensation Committee or Board of Directors of any entity that has one or more executive officers serving on the Waters Board or Compensation Committee.

RISK OVERSIGHT

Board's Role in Risk Oversight Generally

Included in the Company's Annual Report for the year ended December 31, 2013 are the risk factors affecting the Company which are periodically reviewed by the Board and the Audit Committee and updated or expanded as warranted. Additionally, the Company has an Enterprise Risk Management program under the direction of the Director of Treasury and Risk Management and the Vice President, Audit & Risk Management. This program seeks to identify, assess, monitor and report on risks affecting the Company's business and operations on an ongoing basis. Management of the Company actively participates in this program and briefs the Audit Committee on the risks affecting the Company and efforts undertaken to mitigate them.

Compensation-Related Risk

The Company conducted a review to determine if any compensation plans and practices would be reasonably likely to have a material adverse effect on the Company. The Company reviewed various components of its compensation plans including the size, scope and design. The Company also reviewed whether the compensation plans promote unnecessary risk taking and the policies in place to mitigate compensation risk. The review included an assessment of design features that could encourage excessive risk-taking and the potential magnitude of such risks, including design features such as a short-term oriented pay mix, overly aggressive goal setting and over-weighting of annual incentives. Several features of the Company's annual incentive plan, the Management Incentive Plan, mitigate compensation-related risk including the use of payout caps, a clear link between payouts under the plan and the Company's financial performance, and Compensation Committee oversight in determining payouts under the Plan. The policies that exist to mitigate compensation-related risk include, among others, (1) the Company's Recoupment Policy for Management Incentive Plan awards; (2) stock ownership guidelines for named executive officers; (3) a 5 year vesting provision for long-term incentive awards; and (4) independent oversight of compensation programs by the Compensation Committee with input from an independent compensation consultant. Based on this review, the Company does not believe that there are any compensation related risks arising from the Company's compensation plans that would have a material adverse effect on the Company.

Role of Compensation Consultant, Committee and Management in Decision-Making

The Compensation Committee engaged the services of Pearl Meyer & Partners as its outside independent compensation consultant during fiscal year 2013. Pearl Meyer & Partners participates in Compensation Committee meetings and executive sessions and advises the Compensation Committee on a range of executive officer and director compensation matters including plan design, competitive market assessments, trends, best practices and technical and regulatory developments. Pearl Meyer & Partners provides services to the Compensation Committee related only to executive officer and director compensation, including defining peer groups, comparing executive officer and director compensation arrangements to the peer groups, and providing market data and advice regarding executive and director compensation plans. The Compensation Committee has the authority to engage and terminate such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities.

The Compensation Committee regularly reviews the services provided by its outside consultants and believes that Pearl Meyer & Partners is independent in providing executive compensation consulting services.

The Compensation Committee conducted a specific review of its relationship with Pearl Meyer & Partners in 2013, and determined that Pearl Meyer & Partners' work for the Compensation Committee did not raise any conflicts of interest, considering the factors set forth in applicable SEC and New York Stock Exchange Rules. The Compensation Committee continues to monitor the independence of its compensation consultant on a periodic basis.

The Compensation Committee approves all compensation decisions for the named executive officers, after consulting with Pearl Meyer & Partners. The Vice President of Human Resources also provides the Compensation Committee with information and analysis on the Company's executive compensation programs as requested. Mr. Berthiaume provides the Compensation Committee with his assessment of the performance of the Company and the other named executive officers, and makes recommendations for the compensation of the other named executive officers. The Compensation Committee, however, makes all final decisions with respect to the compensation of the CEO and the other named executive officers. No named executive officer makes any decision on any element of his/her own compensation.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview

This Compensation Discussion and Analysis discusses the compensation programs for our named executive officers which for fiscal year 2013 were as follows:

- Douglas A. Berthiaume, Chairman, President and Chief Executive Officer (“CEO”)
- Arthur G. Caputo, Executive Vice President and President, Waters Division
- John A. Ornell, Vice President Finance and Administration and Chief Financial Officer
- Mark T. Beaudouin, Vice President, General Counsel and Secretary
- Elizabeth B. Rae, Vice President, Human Resources.

Executive Summary

The following is a summary of Company performance, the impact of Company performance on compensation for our named executive officers, governance practices related to our compensation programs and the impact of results of the 2013 Say on Pay vote. Details of our compensation programs are discussed in further detail in the appropriate sections of this Compensation Discussion and Analysis:

2013 Company Performance and Events

- Our full-year sales growth of 5% before the impact of currency translation was in line with our 2013 operating plan.
- During the year, the Company judiciously managed expenses however, the effect of currency translation in 2013, mainly the decline in the value of the Japanese yen, had a substantial and adverse impact on our earnings growth for the 2013.
- Our non-GAAP E.P.S. grew 2% in 2013 to \$5.04 from \$4.93 in 2012 which was below our historic norms for profitability. Over the past ten years, the Company has achieved a compounded annual non-GAAP E.P.S. growth rate of 15%.(1)
- During 2013, the Company delivered 15% total shareholder return.
- On August 27, 2013 the Company announced that Douglas A. Berthiaume intends retire as CEO within twenty-four months and that a Succession Planning Committee was appointed to guide the process of selecting a successor.

Impact of Company Performance on Compensation

In adherence to our pay-for-performance philosophy, the following actions and decisions were taken in 2013 as a result of Company performance:

- Base Salaries: For 2013, in light of projected difficult economic conditions, the base salaries of named executive officers were reduced by amounts that range from 3% to 5%. These salary reductions were aligned with projected economic conditions and the Company’s operating plan for 2013 and were not reflective of individual poor performance of the named executive officers individually or as a group. The salary decreases were approved in December 2012 and became effective January 1, 2013. In December 2013, the Compensation Committee approved a 3% increase to the base salary for each named executive

(1) A description of GAAP to non-GAAP items can be found below in the section Elements of Executive Compensation, *Annual Incentive*. A reconciliation of GAAP to non-GAAP E.P.S. and non-GAAP operating income can be found on the Company’s web-site at <http://www.waters.com> under the caption “Investors” and copies may be obtained, without charge, upon written request to the Company, c/o Vice President, Investor Relations, 34 Maple Street, Milford, MA 01757

officer to be effective on January 1, 2014. The decision to increase base salaries was based on an improving economic environment and Pearl Meyer & Partners market data which indicated that base salaries for executives increased on average 5% in 2013.

- **Annual Incentive Plan:** The annual incentive plan, The Management Incentive Plan, is aligned with the Company's performance target of achieving mid-double digit non-GAAP E.P.S. growth annually. The Management Incentive Plan specifically requires 15% non-GAAP E.P.S. growth over the prior year and a minimum level of operating income for a target payout under the plan. The non-GAAP E.P.S. target of 15% has been maintained as the target performance under the Management Incentive Plan for the past 18 years, through multiple business cycles. In 2013, neither the non-GAAP E.P.S. performance nor the non-GAAP operating income threshold was met, there were no payouts under the Management Incentive Plan to named executive officers for 2013 performance.
- **Long-Term Incentive Plan:** On December 6, 2013, the Compensation Committee approved an equity grant for the named executive officers which included the annual stock option grant, as well as a grant of restricted stock units. The grant of restricted stock units for named executive officers was intended to provide a retention incentive in light of the CEO retirement and transition plan that was announced by the Company on August 27, 2013. Although the Compensation Committee intended to grant stock options to Mr. Berthiaume, he declined as in prior years to be considered for an option grant due to his substantial ownership position in Company stock. Consistent with the objective of long-term retention of named executive officers, both stock options and restricted stock units will vest in equal annual installments over five years.

Compensation Governance and Pay Practices

- The Company has adopted a Recoupment Policy for cash incentive awards paid to executive. A full description of the policy can be found below under the heading "Recoupment Policy".
- The Company has implemented stock ownership guidelines for the named executive officers. These guidelines include a share retention requirement in the event a named executive officer fell out of compliance with the stock ownership guidelines. Further details of the guidelines are outlined under the heading "Stock Ownership Guidelines".
- The Company does not offer any perquisites for the exclusive benefit of named executive officers.
- Annual bonus payouts under the Management Incentive Plan are performance based and the Company has not made any discretionary or guaranteed bonus payments.
- The Company maintains an independent Compensation Committee and a Compensation Committee consultant.
- The Company maintains an insider trading policy that prohibits participation in investments strategies that hedge the economic risk of owning Waters stock.

2013 Say on Pay Vote

- The Compensation Committee values the opinions of our stockholders and considers the outcome of the annual Say on Pay stockholder votes in determining the structure of executive compensation, as well as in making future compensation decisions. Waters received strong stockholder support of our executive compensation programs in 2013 with 93% of voted shares voting in favor of Waters executive compensation programs. In part, due to this support, we have not made any responsive changes to our compensation philosophy or practices and continue to manage our programs in a manner consistent with prior years.

Philosophy and Objectives of Waters Executive Compensation Program

The Waters executive compensation program is intended to be both performance-based and market-based such that a significant portion of compensation is allocated to short and long-term variable performance-based

compensation instruments. The objectives of the Company's executive compensation program are aligned with the Compensation Committee's philosophy and are as follows:

- To focus senior management on achieving financial and operating objectives which provide long-term stockholder value;
- To align the interests of senior management with the Company's stockholders; and
- To attract and retain senior executive talent.

The compensation program is designed to motivate and reward executives for sustained high levels of achievement of the Company's financial and operating objectives. In conjunction with our objective to emphasize performance-based compensation, base salaries are generally targeted below the market median for similarly situated executives in comparable firms. Actual base salaries may vary from this generally targeted position based on the performance, tenure, experience and contributions of the individual.

In order to provide target total cash compensation that approximates the median of the market for achieving target performance goals, annual incentive target awards are positioned to be at or slightly above the market median. In aggregate, these two annual components, base salary and annual incentive, provide a target total cash compensation opportunity that approximates the median of the market for achieving target performance goals. Annual performance targets represent challenging operational and financial goals. Actual incentives will vary with the performance of the Company and the overachievement of performance goals will provide opportunity for significantly greater reward on an annual basis. Underachievement of threshold goals will result in no payout. Actual total cash compensation can be less than or greater than the median of the market, based on these factors. We believe that the structure of our total annual cash compensation effectively aligns executives' interests with stockholders' interests by placing emphasis on the achievement of annual financial and operating objectives.

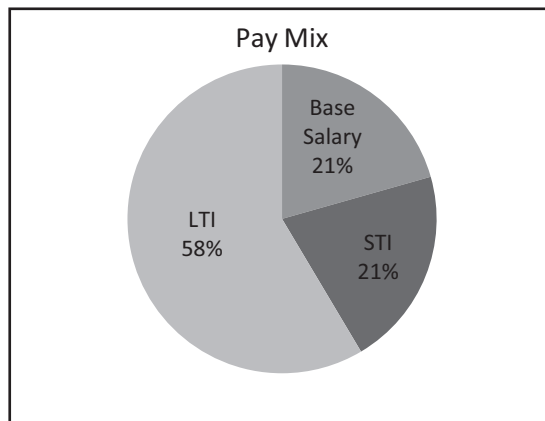
For longer-term alignment, the Company uses stock options to align executive compensation opportunity with stockholder interests because options provide value to the executive only if the Company's stock price increases over time. The value of Waters' stock option grants is targeted to be at or above the competitive market and is intended to represent a significant portion of each executive's total direct compensation (base salary, annual incentive plan and stock options). Additionally, stock options increase the orientation of total direct compensation toward performance-based instruments. Waters' stock options, which vest over a five-year period and have a ten-year term, are also designed to meet the objective to retain executives. The Compensation Committee reviews competitive market data in determining the value of executive stock option grants.

On August 27, 2013, the Company announced that Douglas A. Berthiaume intends to retire as the Company's CEO within the following 24 months. As a result, in addition to the annual grant of stock options, the Compensation Committee approved a grant of restricted stock units at the time of the annual grant in December, 2013. The objective of the restricted stock units is to provide a retention incentive to the named executive officers during a time of CEO transition and succession. The Compensation Committee anticipates that future long-term incentive grants will be consistent with our historic practice and will utilize non-qualified stock options. The restricted stock units will vest in equal installments over a 5 year period. The agreements also provide for acceleration of vesting should a named executive officer be terminated by the Company without cause.

Pay Mix

Consistent with this performance-oriented compensation philosophy, performance-based compensation instruments in total comprise a substantial portion of the target total direct compensation (base salary, target annual incentive and value of the long-term incentive award) for named executive officers. In 2013,

performance-oriented compensation instruments represent an average of 79% of the target total direct compensation for named executive officers as a group.



Data Used to Make Compensation Determinations

Competitive Market Assessment

Competitive market data is an important component in determining the amount of each element of compensation for each named executive officer. The Compensation Committee utilizes Pearl Meyer & Partners to provide advice and analysis on the structure of executive compensation as well as competitive data on base salary, total cash compensation and long-term incentives. In addition, the Compensation Committee reviews the total compensation package for each named executive officer from the perspective of total direct compensation, which includes base salary, annual incentive plan and the value of the long-term incentive grant. Pearl Meyer & Partners prepares this analysis (the “Pearl Meyer & Partners Executive Compensation Competitive Assessment”) annually for the Compensation Committee. The Compensation Committee also reviews each named executive officer’s compensation package in total to ensure that the total compensation package emphasizes performance-based compensation elements and is designed to meet the overall objectives of the executive compensation program. The Compensation Committee considers a range of factors in determining the amount of each compensation element for each executive officer. The range of factors includes Company performance, individual performance and experience, competitive compensation levels, the competitive markets, scope of responsibility and an individual’s potential for making future contributions to the Company.

Pearl Meyer & Partners and the Compensation Committee utilize a core Industry Peer Group of 16 publicly traded companies in the life sciences and analytical instrument industry with generally similar revenues and market capitalization as Waters.

The 2013 Industry Peer Group is comprised of the same companies as in 2012. They are as follows:

Agilent	Mettler-Toledo
C.R. Bard	Pall
Bio-Rad Laboratories	Perkin Elmer
Bruker	ResMed
FLIR Systems	Roper Industries
Hologic	Sigma-Aldrich
Illumina	Thermo Fisher Scientific
Life Technologies	Varian Medical

Each year, Pearl Meyer & Partners evaluates the peer group for continued appropriateness for external executive compensation comparisons based on the primary selection criteria of similarity in industry, products and services, revenue and market capitalization. The target range for both revenue and market capitalization is

50% to 200% of Waters' revenue and market capitalization. The median revenue for the peer group for the four quarters ending September 2013 was \$2,547,000,000 and market capitalization for the peer group as of October 2013 was \$8,366,000,000. Waters' revenue and market capitalization for the same period were \$1,861,000,000 and \$8,600,000,000 representing the 22nd and 51st percentiles, respectively.

Two companies in the peer group, Agilent and Thermo Fisher Scientific, have revenues above the target range, but are included in the peer group because (1) they have similar products and services offerings as Waters, (2) they are direct competitors of Waters, (3) Waters competes with them for talent and (4) Agilent's announced split into two companies will bring Agilent's future revenue size into the target range.

Pearl Meyer & Partners and the Compensation Committee also utilize multiple survey sources to review the competitive marketplace for each named executive officer. Survey sources include the Hewitt Executive Compensation Survey and the CHiPS Executive and Senior Management Total Compensation Survey. The Hewitt Executive Compensation Survey provides a general industry perspective based on revenue scope for each named executive officer position. The CHiPS Executive and Senior Management Total Compensation Survey provides a high-technology perspective based on revenue for each named executive officer position. We use the broad survey data in combination with the peer group data in evaluating our named executive officer compensation. The Compensation Committee does not rely upon data from any individual company participating in any of these surveys in making compensation decisions. Data from the survey sources and the peer companies are combined to develop a primary market composite which is based on an average of survey data and peer company data.

Elements of Executive Compensation

There are three key elements of Waters' executive compensation program: base salary, annual incentive plan, and long-term performance-based awards. Each element of executive compensation addresses specific objectives of the program and together they meet the overall philosophy and objectives of the Waters executive compensation program as described above. The mix of short-term cash incentives and long-term equity incentives focuses executives on achievement of annual financial and operating objectives that drive long-term stockholder value. In addition, the Compensation Committee reviews the combined total of all compensation elements, or total direct compensation, in order to appropriately position total direct compensation relative to both the marketplace and the Company's objectives. Although the amount of each element of compensation for each named executive officer differs based on position-specific market data, the critical nature of the executive's position to the business, the executive's level of contribution, competitive compensation for each position, and other individual factors, the overall structure and compensation elements utilized are consistent for the CEO and all other named executive officers.

Compensation Element	Objective	Target Position to Market	2013 Actual Position to Market for Named Executive Officers(1)
Base Salary	To attract and retain senior executives and other key employees.	Generally targeted at or below the 50 th percentile. <i>(Actual individual salaries may vary based on an executive's performance, tenure, experience and contributions.)</i>	Base salaries in 2013 were at the 30 th percentile of the market.

Compensation Element	Objective	Target Position to Market	2013 Actual Position to Market for Named Executive Officers(1)
Annual Incentive	To motivate named executive officers to achieve strong financial and operational goals as established by the Compensation Committee at the beginning of the fiscal year.	Target payouts at 100% achievement of performance goals are generally positioned at or slightly above the 50 th percentile in order to achieve a target total cash position (base plus annual incentive) that approximates the 50 th percentile. Achievement of strong threshold performance goals is required for any payout.	The overall total target cash market position was at the 45 th percentile of the market. Threshold performance was not achieved in 2013 resulting in no payout under the plan. Target Total Cash is defined as the sum of Base Salary and Target Bonus.
Long-Term Performance Based Awards	To motivate senior executives and other key employees to contribute to the Company's long-term growth of stockholder value and to align compensation with the growth in Waters stock price. Long-Term Performance-Based Awards are also designed to retain senior executives and key employees.	Equity compensation is targeted to be above the competitive market and to represent a significant portion of the executive's total direct compensation. <i>(Actual individual grants are determined based on the executive's position, performance, tenure, experience and contributions.)</i>	Non-qualified stock option grants and Target Total Direct Compensation both approximated the 55 th percentile of the market. Target Total Direct Compensation is defined as the sum of Total Target Cash plus the value of the most recent Long-Term Incentive Grant.

- (1) The 2013 Compensation Element Results in the following table reflect the analysis completed by Pearl Meyer & Partners in the fourth quarter of 2013. It has been the consistent practice of the Compensation Committee to grant equity based compensation to the named executive officers at the Compensation Committee meeting held in December of each year. This Pearl Meyer & Partners analysis therefore includes the annual stock option award granted on December 11, 2012 and the cash compensation approved at the same meeting to be effective January 1, 2013.

Base Salary

The base salaries for the named executive officers are reviewed annually by the Compensation Committee. Individual salaries are based upon a combination of factors including past individual performance and experience, Company performance, scope of responsibility, competitive salary levels and an individual's potential for making contributions to future Company performance. The Compensation Committee considers all these factors in determining base salary increases and does not assign a specific weighting to any individual factor.

In addition to considering the factors listed above, the Compensation Committee also considers the competitive market position of an executive officer's base salary. Base salary increases are approved by the Compensation Committee at the end of the fiscal year with an effective date at the beginning of the next fiscal year, or January 1st of each year. The Pearl Meyer & Partner Executive Compensation Competitive Assessment completed at the end of 2012 provided the competitive market position used in determining the base salary in effect in 2013. The competitive market position at the end of 2012 averaged at the 40th percentile for named executive

officers as a group. However, in light of projected difficult economic conditions, salaries for named executive officers were reduced by amounts that range between 3% and 5% for 2013.

The Pearl Meyer & Partners Executive Compensation Competitive Assessment which was completed at the end of 2013 provided the competitive market information used in approving base salary changes to be effective in January 2014. The overall competitive position of base salaries for named executive officers in this analysis was at the 30th percentile. The Compensation Committee approved a 3% base salary increase for all named executive officers for to be effective January 1, 2014. Based on an improving economic environment, a Pearl Meyer & Partner market assessment which indicated that base salaries for executives increased on average 5% in 2013, and a base pay competitive position that moved from the 40th percentile to the 30th percentile, the Compensation Committee approved 3% base salary increases to each named executive officer.

Annual Incentive

The Management Incentive Plan is the annual incentive plan for named executive officers, senior executives, and other key employees of the Company. The Compensation Committee establishes performance targets at the beginning of each fiscal year for named executive officers. Executive officers then establish performance targets for the remaining participants. Achievement of 100% of the performance target is required for an incentive payout equal to 100% of the incentive plan target. The 2013 Management Incentive Plan structure is described in the table below and is unchanged from the payout structure in 2012.

Name	2013 Management Incentive Plan Payout Structure as a Percent of Base Salary			
	Below Threshold Performance	Threshold Performance	Target Performance	Maximum Performance
Douglas A. Berthiaume	0%	31.25%	125%	412.50%
Arthur G. Caputo	0%	27.50%	110%	350.02%
John A. Ornell	0%	25.00%	100%	318.20%
Mark T. Beaudouin	0%	18.75%	75%	238.65%
Elizabeth B. Rae	0%	12.50%	50%	159.10%

All payouts at threshold performance are equal to .25 times the target payout for each executive officer, and are payable upon achievement of a minimum non-GAAP operating income threshold performance and a minimum non-GAAP E.P.S. goal. Performance below the minimum non-GAAP operating income threshold level results in no payout. The maximum payout under the plan is 3.3 times the target for Mr. Berthiaume and 3.182 times the target payouts for Messrs. Caputo, Ornell and Beaudouin and Ms. Rae. Payouts are interpolated for performance between threshold, target and maximum levels. The Compensation Committee believes that a maximum payout opportunity of 3.3 and 3.182 times the target payout is consistent with the philosophy to position total target cash at the median of the competitive market and to provide opportunity for significantly greater reward for overachievement of challenging performance goals. As discussed in detail below, the Compensation Committee establishes annual performance goals which represent strong Company performance.

The Compensation Committee has consistently utilized non-GAAP E.P.S. as the primary performance measure under the Management Incentive Plan for named executive officers. For the past eighteen years, the Compensation Committee has established a goal of 15% non-GAAP E.P.S. growth over the prior year. The Company has exceeded the target of 15% non-GAAP E.P.S. growth in 12 of the past 18 years and has exceeded threshold performance of 7% non-GAAP E.P.S. growth in 14 of the past 18 years.

Consistent use of this measure promotes executive team alignment, focuses the executive team on operational efficiencies and profitability, provides a long-term perspective among executives and drives long-term stockholder value. The Compensation Committee also requires that a minimum non-GAAP operating income measure be achieved in addition to the non-GAAP E.P.S. growth target in order to maintain a balanced focus on operational improvements excluding the effects of any benefits from finance costs, taxes and stock repurchases to

non-GAAP E.P.S. The non-GAAP E.P.S. growth targets are based on E.P.S. reported in accordance with GAAP, but adjusted to exclude certain charges and credits, net of tax, including but not limited to purchased intangibles amortization, acquisition, restructuring, litigation, lease termination, asset and equity investment impairments, tax audit settlements and adjustments and other items considered unusual or one-time costs. The Compensation Committee reviews and approves the annual adjusted non-GAAP E.P.S. for purposes of measuring E.P.S. growth goal achievement. The Company considers these items non-operational and not directly related to ongoing operations and therefore utilizes non-GAAP E.P.S. goals as the metric for the named executive officers in the annual Management Incentive Plan. The Compensation Committee evaluates the results of the Company's performance against previously established targets in order to determine the individual incentive plan payouts, if any, for the named executive officers under the Management Incentive Plan.

The performance measures required for payout under the 2013 Management Incentive Plan are outlined in the table below.

2013 Performance Measures	2013 Management Incentive Plan Performance Targets			
	Below Threshold Performance	Threshold Performance	Target Performance	Maximum Performance
2013 Non-GAAP E.P.S. growth over 2012	<7%	7%	15%	27.5%
2013 Non-GAAP Operating Income growth over 2012	<3%	3%		
Both threshold performance measures must be met in order for a payout under the Plan. Once threshold non-GAAP operating income performance and non-GAAP E.P.S. performance has been achieved, increasing levels of payout are based on non-GAAP E.P.S. growth only.				

In fiscal year 2013, the Company did not meet the minimum non-GAAP operating income and non-GAAP E.P.S. thresholds and there were no payouts under the Management Incentive Plan for named executive officers. Non-GAAP operating income for 2013 was \$536,806,000 which represents a 1% decline over 2012 non-GAAP operating income of \$541,574,000. Non-GAAP E.P.S. for 2013 was \$5.04 which represents 2% growth over 2012 non-GAAP E.P.S. of \$4.93. Non-GAAP E.P.S. and non-GAAP operating income for 2013 and 2012 excluded, net of tax, as applicable, purchased intangibles amortization, tax audit settlements and adjustments, asset impairments, restructuring costs, litigation provisions and acquisition-related costs from its non-GAAP adjusted amounts since the Company believes that these items are not directly related to ongoing operations.

The Company has reviewed the Management Incentive Plan with Pearl Meyer & Partners. The objectives of this review were to consider the Management Incentive Plan for alignment with Waters' compensation philosophy and emphasis on pay-for-performance and to review the performance measures utilized under the Management Incentive Plan to ensure these measures provide the best ongoing assessment of strategy execution and the creation of stockholder value. Results of the review indicated that the Management Incentive Plan and the use of non-GAAP earnings growth as a metric continue to meet the goals of aligning pay with performance and holding executives accountable for strong financial and operating performance targets. The review also found that consistent achievement of 15% annual non-GAAP earnings growth was a challenging metric. This study also found that actual executive payouts under the Company's Management Incentive Plan were aligned with both Company performance versus the peer group and total stockholder return.

On an annual basis the Committee considers an appropriate non-GAAP operating income and non-GAAP E.P.S. threshold for threshold payments under the Management Incentive Plan taking into consideration factors including, but not limited to, the Company's current year operating plan and the general outlook for economic conditions. For fiscal year 2014, the Compensation Committee has again established a 15% non-GAAP E.P.S. growth target for a target payout under the Management Incentive Plan. For a payout at threshold in 2014, the Committee established threshold performance goals of 3% non-GAAP operating income growth and a 5% non-GAAP E.P.S. growth. The maximum payout will require non-GAAP E.P.S. growth of 27.5%. Payouts are interpolated for performance between threshold, target and maximum levels.

Long-Term Performance-Based Awards

The Compensation Committee considers long-term performance-based awards in the form of equity-based compensation annually at the Compensation Committee's December meeting. Multiple factors, considered collectively, are reviewed by the Compensation Committee in determining the number of shares to award each named executive officer. These factors include dilution, share usage, stock compensation expense, the financial and operational performance of the Company and each named executive officer, the prior number of shares granted, both individually to each named executive officer and in aggregate to all named executive officers, and competitive market data.

It has been the long-standing practice of the Compensation Committee to utilize non-qualified stock options to align the interests of named executive officers and other senior executives with those of Waters' stockholders. We believe that stock options provide strong alignment between stockholders and these executives because the value of a stock option to an executive is directly related to the stock price appreciation delivered to stockholders over time. Conversely, poor stock price performance provides no stock option value to the executive.

In considering the annual equity-based grant to named executive officers in December 2013, the Compensation Committee also took into account the importance of retention of named executive officers during a time of CEO transition and succession. The Compensation Committee determined, in consultation with Pearl Meyer & Partners, that utilizing time vested restricted stock units would provide an effective retention incentive for named executive officers following the Company's announcement on August 27, 2013 that Douglas A. Berthiaume, President and CEO intended to retire within the following 24 months. The value of the annual equity compensation grant to Mr. Caputo, Mr. Beaudouin and Ms. Rae was comprised of approximately 50% non-qualified stock options and 50% restricted stock units. In addition to the annual grant of non-qualified stock options and restricted stock units, Mr. Caputo, Mr. Beaudouin and Ms. Rae were also granted a retention grant of restricted stock units equal to approximately 1 times their salary in effect on January 1, 2014. Both the non-qualified stock options and the restricted stock unit grants were granted under the Waters Corporation 2012 Equity Incentive Plan and will vest 20% per year for 5 years emphasizing the importance of retention through the CEO transition and beyond. The non-qualified stock options were granted based on the closing price of Waters' common stock on the grant date, December 6, 2013 and have a ten-year term. Both the non-qualified stock option and restricted stock unit grant agreements provide for the acceleration of unvested options or restricted stock units upon the death of a named executive officer or senior executive. In addition, the restricted stock unit agreements provide for accelerated vesting in the event the named executive officer is terminated by the Company, without cause.

The Company announced on December 9, 2013 that Mr. Ornell would resign as Chief Financial Officer effective February 1, 2014 and continue to serve the Company in a part-time senior advisory capacity. Mr. Ornell was granted restricted stock units with a value of approximately \$250,000 which will vest in full on December 6, 2014. These restricted stock units are intended to serve as a retention incentive to Mr. Ornell through 2014 and the grant agreement also provides for accelerated vesting in the event Mr. Ornell is terminated by the Company without cause.

Competitive market data for long-term performance-based awards is prepared for the Compensation Committee by Pearl Meyer & Partners. As noted above, the Committee also uses this data as one of the factors in determining the equity grant for each named executive officer. Consistent with the Compensation Committee's philosophy of emphasizing performance-based pay, the Compensation Committee targets long-term incentives above the median of the competitive market data for each named executive officer. The Compensation Committee targets long-term incentives above the market median because in combination with a base salary target below the market median and an annual incentive target at or slightly above the market median, it achieves the Compensation Committee's objective of emphasizing performance-based pay. In addition, unlike most of the Company's peers that grant a mix of long-term incentive instruments including time-based restricted stock, the Compensation Committee has historically granted 100% stock options. Pearl Meyer & Partners prepares long-term incentive guidelines for the Compensation Committee that derives a range around the 75th percentile of the competitive market data for long-term incentives of the Industry Peer Group. The total value of the annual grant and the retention grant comprised of non-qualified stock options and restricted stock units granted to Mr. Caputo, Mr. Beaudouin and Ms. Rae on December 6, 2013 were within the long-term incentive guidelines as prepared by Pearl Meyer & Partners.

A review of share usage, dilution and stock based compensation expense was also prepared by Pearl Meyer & Partners with data as of the fiscal year ended December 31, 2012. In this analysis the Company's annual share usage, as a percent of common shares outstanding, was at the 50th percentile for the most recent annual grant and the 50th percentile for an average of the past three years grants when compared to that of the Industry Peer Group. The Company's dilution was 6.3% which represent approximately the 65th percentile of the Industry Peer Group. The Company's fair market value stock-based expense is at the 30th percentile and as a percent of market capitalization approximates the 25th percentile. The Compensation Committee reviews these metrics annually and in 2013 determined that the overall grant practices with respect to share usage and stock compensation expense were appropriate relative to the Industry Peer Group.

The Compensation Committee also believes that it is important to provide meaningful reward and recognition opportunities to the named executive officers irrespective of the potential gains they may realize from prior long-term performance based awards. The Compensation Committee believes that the stock option and restricted stock unit grants made to the named executive officers in December, 2013 were aligned with its philosophy to emphasize long-term performance-based awards, were consistent with the scope and level of contribution for each of the named executive officers and effectively provided for retention during a CEO transition. It is the intention of the Compensation Committee to utilize non-qualified stock options as the long-term performance-based award to align the interests of executives with stockholders in the future.

It was the intention of the Compensation Committee to grant 135,000 non-qualified stock options to Mr. Berthiaume in 2013. Due to Mr. Berthiaume's significant ownership position in the Company, Mr. Berthiaume declined to be considered for an option grant in 2013. The Compensation Committee will continue to consider Mr. Berthiaume for future stock option grants.

Perquisites and Benefits

The Company does not offer any perquisites for the exclusive benefit of executive officers.

The named executive officers are eligible to participate in compensation and benefit plans that are generally offered to other employees, such as the Waters Employee Investment Plan (the "401(k) Plan"), the Employee Stock Purchase Plan and health and insurance plans. They are also eligible to participate in the Waters 401(k) Restoration Plan (the "401(k) Restoration Plan") that is available to all employees who meet certain minimum earnings eligibility criteria. The Waters 401(k) Restoration Plan and the Waters Retirement Restoration Plan are designed to restore the benefits, matching contributions and compensation deferral that are limited by Internal Revenue Service benefit and compensation maximums. These plans are described more fully in the narrative that accompanies the Pension Benefits table and the Non-Qualified Deferred Compensation table in this Proxy Statement.

Change of Control/Severance Agreements

Messrs. Berthiaume, Caputo, Ornell and Beaudouin and Ms. Rae are each party to an Executive Change of Control/Severance Agreement, which is described in detail in the "Payments Upon Termination or Change of Control" section of this Proxy Statement.

The Company provides Change of Control/Severance Agreements for named executive officers and other senior executives if they are terminated or leave for good reason prior to or following a change of control, to ensure continuity of executive management in the event of a change of control of the Company, and to ensure the ability of executives to evaluate a potential change of control in the best interests of the Company and stockholders. In addition, under the terms and conditions of the executive officers' stock option agreements issued under the 2003 Equity Incentive Plan and the 2012 Equity Incentive Plan, in the event of a change of control, all of the named executive officers and other senior executives' outstanding and unvested stock options and restricted stock units will fully accelerate and become fully exercisable. The terms of these agreements are more fully described in the "Payments upon Termination or Change of Control" section herein.

Equity Ownership Guidelines

The importance of ownership in Waters' stock by its named executive officers is emphasized through ownership guidelines that require the CEO to acquire and retain common stock equal to five times his base salary over

a three-year period. The other named executive officers are required to acquire and retain common stock equal to two times their base salary over a five-year period. If a named executive officer does not achieve his or her ownership guideline within the applicable three or five-year period, a disposition guideline will be applied. The disposition guideline requires that, upon subsequent exercise of a stock option, 50% of the named executive officer's net after tax profit from such exercise be retained in shares of Waters common stock until the stock ownership guideline is achieved. A named executive officer who achieves the ownership guideline and subsequently falls out of compliance will have 12 months to again achieve compliance before the disposition guideline on stock option exercises is applied. Vested "in-the-money" stock options and unvested restricted stock count toward determining compliance for the purpose of accumulating shares to comply with the stock ownership guidelines. The ownership guidelines have been met by all named executive officers.

Recoupment Policy

The Company has adopted a Recoupment Policy for cash incentive awards paid to current or former named executive officers under the Company's management incentive plans. Under this policy, if any executive officer engaged in misconduct that resulted in a restatement of financial results, the Board of Directors or an authorized Committee, such as the Compensation Committee, if it is determined appropriate, could seek reimbursement of the portion of management incentive plan awards impacted by the event. The Company will review and as necessary amend or replace the Recoupment Policy to be in full compliance with the Dodd-Frank Act when rules are adopted with respect to the Dodd-Frank Act's recoupment parameters.

Long-Term Incentive Grant Practices

It has been the consistent practice of the Compensation Committee to grant stock options to senior executives annually at the Compensation Committee's December meeting. Grant prices are established based on the closing price of the common stock on the date of grant.

Tax and Accounting Implications

Waters considers all of the tax and accounting aspects of the compensation instruments utilized by the Company in determining the most efficient method to use in delivering executive compensation. This includes, but is not limited to, Section 162(m) of the Internal Revenue Code. Section 162(m) generally limits the tax deduction available to public companies for annual compensation paid to the chief executive officer and next three highest paid officers (exclusive of the chief financial officer) in excess of \$1 million unless the compensation qualifies as performance-based. The Compensation Committee intends for payments under the Management Incentive Plan and equity grants under the 2003 Equity Incentive Plan and 2012 Equity Incentive Plan to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. The maximum payout amount under the current Management Incentive Plan of \$5,000,000 was established to comply with the maximum payout requirements of Section 162(m) of the Internal Revenue Code. It is the Company's intent to qualify plans for full deductibility to the extent that it is consistent with the Company's overall compensation objectives, however, the Compensation Committee retains complete discretion to make payments to named executive officers that would not qualify as performance-based compensation to the extent necessary and appropriate to support the Company's strategies and long-term success.

EXECUTIVE COMPENSATION TABLES

The table below summarizes the total compensation paid to or earned by our Chief Executive Officer, Chief Financial Officer and the three other most highly paid named executive officers for the fiscal years ended December 31, 2013, 2012 and 2011.

Summary Compensation Table									
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Douglas A. Berthiaume Chairman, President and Chief Executive Officer	2013	\$774,037	—	\$0	\$0	\$0	\$77,325	\$47,612	\$898,974
	2012	\$814,776	—	—	\$0	\$0	\$104,369	\$143,827	\$1,062,972
	2011	\$794,903	—	—	\$0	\$1,562,840	\$150,965	\$138,022	\$2,646,730
Arthur G. Caputo Executive Vice President and President, Waters Division	2013	\$493,251	—	\$1,805,002	\$1,520,200	\$0	\$13,442	\$16,470	\$3,848,365
	2012	\$508,506	—	—	\$2,611,400	\$0	\$65,248	\$16,170	\$3,201,324
	2011	\$491,310	—	—	\$3,289,000	\$821,893	\$102,106	\$16,032	\$4,720,341
John A. Ornell Vice President Finance and Administration and Chief Financial Officer (k)	2013	\$402,263	—	\$250,043	\$0	\$0	\$0	\$16,470	\$668,776
	2012	\$414,704	—	—	\$1,424,400	\$0	\$40,961	\$36,267	\$1,916,332
	2011	\$400,680	—	—	\$1,794,000	\$609,347	\$69,562	\$35,359	\$2,908,948
Mark T. Beaudouin Vice President, General Counsel and Secretary	2013	\$388,989	—	\$989,957	\$691,000	\$0	\$0	\$16,395	\$2,086,341
	2012	\$401,020	—	—	\$1,187,000	\$0	\$13,216	\$51,768	\$1,654,004
	2011	\$389,340	—	—	\$1,495,000	\$444,076	\$21,784	\$32,245	\$2,382,445
Elizabeth B. Rae Vice President Human Resources	2013	\$237,974	—	\$715,951	\$552,800	\$0	\$0	\$14,850	\$1,521,575
	2012	\$245,334	—	—	\$949,600	\$0	\$13,501	\$36,115	\$1,244,550
	2011	\$237,038	—	—	\$1,196,000	\$180,242	\$23,493	\$26,406	\$1,663,179

- (a) Mr. Berthiaume is also a director of the Company, however he receives no additional compensation for his services as a director.
- (c) Reflects the base salary earned by the executive officer during 2013, 2012 and 2011, respectively.
- (e) Reflects the restricted stock units granted on December 6, 2013 at the closing price on December 6, 2013 of \$98.21.
- (f) FASB ASC Topic 718 is the accounting standard used in determining the aggregate grant date fair value of the option awarded. The FASB ASC Topic 718 aggregate grant date fair value of the option awarded was determined using the Black Scholes option pricing model without regard to estimated forfeitures. The assumptions used to calculate this amount are disclosed in the Waters Annual Reports for the fiscal years ended December 31, 2013, 2012 and 2011. The closing prices of the common stock on the grant dates December 6, 2013, December 11, 2012 and December 7, 2011 were \$98.21, \$87.06 and \$79.15, respectively. The Compensation Committee considered Mr. Berthiaume for an option grant, however due to his significant stock ownership position in the Company, he declined to be considered for a grant in 2013, 2012 and 2011.
- (g) Reflects the annual incentive compensation earned in 2013, 2012 and 2011, respectively, under the Company's Management Incentive Plan. No incentive was earned for 2013 or 2012.
- (h) Reflects the change in the annual aggregate estimated present value of accrued retirement benefits from both the frozen Waters Retirement Plan and the frozen Waters Retirement Restoration Plan for 2013, 2012 and 2011. There were no above market or preferential earnings on any non-qualified plan balances.

- (i) Reflects the matching contribution for the benefit of the named executive under the non-qualified Waters 401(k) Restoration Plan, the qualified 401(k) Plan, and for the dollar value of group term life insurance premiums paid by the Company on behalf of each named executive officer during 2013, 2012 and 2011.

Named Executive Officer	Matching Contributions 401(k) Restoration Plan and 401(k) Plan			Company Paid Group Term Life Insurance Premiums		
	2013	2012	2011	2013	2012	2011
Douglas A. Berthiaume	\$46,442	\$142,657	\$136,690	\$1,170	\$1,170	\$1,332
Arthur G. Caputo	\$15,300	\$15,000	\$14,700	\$1,170	\$1,170	\$1,332
John A. Ornell	\$15,300	\$35,097	\$34,117	\$1,170	\$1,170	\$1,242
Mark T. Beaudouin	\$15,300	\$50,705	\$31,125	\$1,095	\$1,063	\$1,120
Elizabeth B. Rae	\$14,275	\$35,560	\$25,804	\$575	\$555	\$602

- (j) Reflects the total of compensation elements reported in columns (a) through (i) for 2013, 2012 and 2011.
- (k) Effective February 1, 2014, Mr. Ornell was succeeded by Eugene G. Cassis, who is Interim Chief Financial Officer. Mr. Ornell continues to serve the company in an advisory capacity on a part-time basis.

The table below sets forth the range of potential payouts under the Management Incentive Plan and specifies the grant of stock option awards to the named executive officers in the last fiscal year.

Grants of Plan-Based Awards Fiscal Year								
Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum				
(a)	(b)	(c)	(d)	(e)	(i)	(j)	(k)	(l)
Douglas A. Berthiaume Chairman, President and Chief Executive Officer		\$241,887	\$967,546	\$3,192,903				
Arthur G. Caputo Executive Vice President and President, Waters Division	12/6/2013				18,379	55,000	\$98.21	\$3,325,202
		\$135,644	\$542,576	\$1,726,477				
John A. Ornell Vice President Finance and Administration and Chief Financial Officer	12/6/2013				2,546	0	\$98.21	\$ 250,043
		\$100,566	\$402,263	\$1,280,001				
Mark T. Beaudouin Vice President, General Counsel and Secretary	12/6/2013				10,080	25,000	\$98.21	\$1,680,957
		\$ 72,935	\$291,742	\$ 928,322				
Elizabeth B. Rae Vice President Human Resources	12/6/2013				7,290	20,000	\$98.21	\$1,268,751
		\$ 29,747	\$118,987	\$ 378,617				

- (c)(d) (e) Reflects the range of payout under the Company's Management Incentive Plan from threshold performance to maximum performance for 2013. Performance below the threshold would result in no payout under the Management Incentive Plan. Pursuant to Section 162(m), the Management Incentive Plan has a \$5,000,000 maximum payout.
- (i) Reflects the number of restricted stock units granted by the Compensation Committee on December 6, 2013. These grants of restricted stock units made to Mr. Caputo, Mr. Beaudouin and Ms. Rae will vest 20% per

year for five years. The grant made to Mr. Ornell on December 6, 2013 will vest in full on December 6, 2014. These grants made to Messrs. Caputo, Ornell, Beaudouin and Ms. Rae all provide for the acceleration of any unvested restricted stock units should the executive's employment be terminated involuntarily, not for cause, prior to a vesting date.

- (j) Reflects the number of non-qualified stock options granted by the Compensation Committee on December 6, 2013. These options will vest 20% per year for five years. It was the intention of the Compensation Committee to grant a stock option award equal to 135,000 shares to Mr. Berthiaume in 2013; however, Mr. Berthiaume declined to be considered for an option grant in 2013 due to his significant stock ownership position in the Company.
- (k) Reflects the closing price of the common stock on the grant date of December 6, 2013.
- (l) FASB ASC Topic 718 is the accounting standard used in determining the aggregate grant fair value of the option awarded. The aggregate grant date fair value of the option was determined using the Black Scholes option pricing model without regard to estimated forfeitures.

Narrative Disclosure to the Summary Compensation Table and the Grants of Plan Based Awards Table

The non-equity incentive plan award payments, column (g) of the Summary Compensation Table, were earned under the Company's Management Incentive Plan during fiscal 2013, 2012 and 2011. Incentive payments, if any, were based on exceeding the threshold requirements for non-GAAP operating income and non-GAAP E.P.S. goals. The estimated future payouts under the non-equity incentive plan awards in columns (c), (d) and (e) of the Grants of Plan-Based Awards Table represent the threshold, target and maximum payouts, respectively, for fiscal year 2013 under the Company's Management Incentive Plan.

The non-qualified stock option awards and restricted stock unit awards listed in columns (i) and (j) of the Grants of Plan-Based Awards Table, respectively, were granted pursuant to the Waters Corporation 2012 Equity Incentive Plan. These stock option and restricted stock unit awards were granted at a meeting of the Compensation Committee held on December 6, 2013 and vest 20% per year for five years. The stock option exercise price of \$98.21 is equal to the closing market price of the common stock on December 6, 2013. The stock option grants to the named executive officers and have a ten-year term. There have been no re-pricings or modifications of stock option awards for the named executive officers.

There were no discretionary or guaranteed bonus payments to the named executive officers in fiscal 2013, 2012 or 2011.

Messrs. Berthiaume, Caputo, Ornell and Beaudouin and Ms. Rae do not have employment agreements with the Company. However, each is a party to an Executive Change of Control/Severance Agreement with the Company as discussed below in the "Payments Upon Termination or Change of Control" section of this Proxy Statement.

The table sets forth the outstanding equity awards classified as exercisable and unexercisable and the unvested stock awards for each of the named executive officers as of December 31, 2013

Outstanding Equity Awards at Fiscal Year-End 2013						
Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
(a)	(b)	(c)	(e)	(f)	(g)	(h)
Douglas A. Berthiaume	150,000	0	\$47.12	12/8/2014		
Arthur G. Caputo	0	55,000	\$98.21	12/6/2023	18,379	\$1,837,900
	22,000	88,000	\$87.06	12/11/2022		
	44,000	66,000	\$79.15	12/7/2021		
	66,000	44,000	\$79.05	12/9/2020		
	80,000	20,000	\$59.44	12/9/2019		
	100,000	0	\$41.20	12/10/2018		
	85,000	0	\$77.94	12/11/2017		
	100,000	0	\$49.31	12/13/2016		
	100,000	0	\$38.99	12/2/2015		
	125,000	0	\$47.12	12/8/2014		
John A. Ornell	0	0			2,546	\$254,600
	12,000	48,000	\$87.06	12/11/2022		
	12,000	36,000	\$79.15	12/7/2021		
	12,000	24,000	\$79.05	12/9/2020		
	10,000	10,000	\$59.44	12/9/2019		
	8,000	0	\$41.20	12/10/2018		
	0	0	\$77.94	12/11/2017		
	0	0	\$49.31	12/13/2016		
Mark T. Beaudouin	0	25,000	\$98.21	12/6/2023	10,080	\$1,008,000
	10,000	40,000	\$87.06	12/11/2022		
	20,000	30,000	\$79.15	12/7/2021		
	30,000	20,000	\$79.05	12/9/2020		
	8,000	8,000	\$59.44	12/9/2019		
	8,000	0	\$41.20	12/10/2018		
	0	0	\$77.94	12/11/2017		
	0	0	\$49.31	12/13/2016		
Elizabeth B. Rae	0	20,000	\$98.21	12/6/2023	7,290	\$729,000
	8,000	32,000	\$87.06	12/11/2022		
	16,000	24,000	\$79.15	12/7/2021		
	24,000	16,000	\$79.05	12/9/2020		
	6,000	6,000	\$59.44	12/9/2019		
	6,000	0	\$41.20	12/10/2018		
	15,000	0	\$77.94	12/11/2017		
	0	0	\$49.31	12/13/2016		

- (b) (c) Although it was the intention of the Compensation Committee to grant a stock option award to Mr. Berthiaume each year since 2005, Mr. Berthiaume declined to be considered for an option grant in each of these years due to his substantial stock ownership in the Company. The expiration date for all grants is ten years from the date of grant. The vesting schedule for all stock option grants is 20% per year for the first five years after grant. Grants with expiration dates of December 10, 2018 or earlier are 100% vested as of December 18, 2013. Vesting dates for annual grants with expiration dates after December 10, 2018 are December 9, December 9, December 7, December 11 and December 6, respectively. On the annual anniversary of each of these dates, an additional 20% of the total number of shares granted will vest until 100% of the original grant is vested on the fifth anniversary of the grant date.
- (g) (h) Represents restricted stock units granted on December 6, 2013. The grants made to Mr. Caputo, Mr. Beaudouin and Ms. Rae will vest 20% per year for the next five years. The grant made to Mr. Ornell will vest in full on December 6, 2014.

The table below sets forth certain information regarding stock option awards exercised by the named executive officers during the last fiscal year.

Option Exercises and Stock Vested Fiscal Year 2013		
Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$)
(a)	(b)	(c)
Douglas A. Berthiaume	150,000	\$10,213,500
Arthur G. Caputo	100,000	\$6,716,710
John A. Ornell	172,000	\$6,799,262
Mark T. Beaudouin	130,000	\$5,893,451
Elizabeth B. Rae	46,000	\$2,023,586

(a) All options exercised by Mr. Berthiaume and Mr. Caputo had expiration dates of December 11, 2013.

The table below sets forth certain information regarding payments or other benefits at, following or in connection with retirement of the named executive officers.

Pension Benefits Fiscal Year 2013				
Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefits (\$)	Payments During Last Fiscal Year (\$)
(a)	(b)	(c)	(d)	(e)
Douglas A. Berthiaume	Waters Corporation Retirement Plan	33.12	\$381,105	—
	Waters Corporation Retirement Restoration Plan	33.12	\$2,009,767	—
Arthur G. Caputo	Waters Corporation Retirement Plan	36.19	\$406,029	—
	Waters Corporation Retirement Restoration Plan	36.19	\$802,385	—
John A. Ornell	Waters Corporation Retirement Plan	23.54	\$271,232	—
	Waters Corporation Retirement Restoration Plan	23.54	\$231,478	—
Mark T. Beaudouin	Waters Corporation Retirement Plan	10.75	\$68,196	—
	Waters Corporation Retirement Restoration Plan	10.75	\$121,189	—
Elizabeth B. Rae	Waters Corporation Retirement Plan	17.96	\$132,177	—
	Waters Corporation Retirement Restoration Plan	17.96	\$21,463	—

The present value of the accumulated benefit is calculated in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 715 Compensation – Retirement Benefits. Please refer to the footnotes in the Waters 2013 Annual Report for the fiscal year ended December 31, 2013 for the Company's policy and assumptions made in the valuation of this accumulated benefit.

The Waters Retirement Plan ("Retirement Plan") is a U.S. defined benefit cash balance plan for eligible U.S. employees. The Waters Retirement Restoration Plan ("Retirement Restoration Plan") is a U.S. unfunded, non-qualified plan which restores the benefits under the Waters Retirement Plan that are limited by Internal Revenue Service benefit and compensation maximums. As a cash balance plan, each participant's benefit is determined based on annual pay credits and interest credits which are made to each participant's notional

account. Effective December 31, 2007, future pay credits to the Retirement Plan and Retirement Restoration Plan on behalf of senior executives were discontinued and no further pay credits will be made on or after January 1, 2008. Interest credits will continue to apply. Interest credits are based on the one-year constant maturity Treasury Bill rate on the first business day in November of the preceding plan year plus 0.5%, subject to a 5.0% minimum and a 10.0% maximum rate.

A participant is not vested in the Retirement Plan and Retirement Restoration Plan until completion of five years of service at which time the employee becomes 100% vested. The normal retirement age under the plans is age 65. Messrs. Berthiaume and Caputo are currently eligible for early retirement under the Retirement Plan and Retirement Restoration Plan. Under these plans, early retirement is defined as attainment of age 62 with at least 10 years of service. However, former participants of the Millipore Retirement Plan (a former parent company of Waters) are eligible for early retirement upon attainment of age 55 with at least 10 years of service. Messrs. Berthiaume, Caputo and Ornell are former Millipore Retirement Plan participants and are eligible for retirement.

The valuation method and material assumptions used in calculating the benefits reported in column (d) are disclosed in the Waters 2013 Annual Report for the fiscal year ended December 31, 2013.

The table below summarizes the deferred compensation in the last fiscal year for the named executive officers.

Non-Qualified Deferred Compensation					
Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
(a)	(b)	(c)	(d)	(e)	(f)
Douglas A. Berthiaume Chairman, President and Chief Executive Officer	\$46,442	\$31,142	\$2,083,121	\$0	\$8,496,188
Arthur G. Caputo Executive Vice President and President, Waters Division	\$0	\$0	\$140,057	\$0	\$1,089,728
John A. Ornell Vice President Finance and Administration and Chief Financial Officer	\$0	\$0	\$42,940	\$0	\$972,179
Mark T. Beaudouin Vice President, General Counsel and Secretary	\$0	\$0	\$204,102	\$0	\$1,139,400
Elizabeth B. Rae Vice President Human Resources	\$14,278	\$0	\$37,823	\$0	\$275,765

- (b) Amounts in this column are also reported as salary (column(c)) or non-equity incentive compensation (column (g)) in the Summary Compensation Table.
- (c) Amounts in this column represent Company contributions to the 401(k) Restoration Plan. These amounts are also reported under All Other Compensation (column (i)) in the Summary Compensation Table.
- (d) Amounts reported in this column reflect participant directed earnings in investment vehicles consistent with the qualified 401(k) Plan with the exception of Waters common stock, the self-directed Brokeragelink Option and the Fidelity Managed Income Portfolio. These amounts are not included in the Summary Compensation Table because the earnings are not “above-market” or preferential.
- (f) The aggregate fiscal year-end balance reported for the 401(k) Restoration Plan includes the following amounts that were previously reported in the Summary Compensation Table as compensation for 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006 for Messrs. Berthiaume, Caputo, Ornell and Beaudouin and Ms. Rae: \$1,444,717, \$108,030, \$331,729, \$617,640 and \$198,269, respectively.

All non-qualified deferred compensation contributions made by the named executive officer, or by the Company on behalf of the named executive officer, are made pursuant to the 401(k) Restoration Plan. The purpose of the 401(k) Restoration Plan is to allow certain management and highly compensated employees to defer wages to a non-qualified retirement plan in addition to the amount permitted to be deferred under the 401(k) Plan (\$17,500 in 2013 or \$22,500 if age 50 or older). The 401(k) Restoration Plan is also intended to permit participants to receive the additional matching contributions that they would have been eligible to receive under the 401(k) Plan if the Internal Revenue Service limit on compensation for such plans, \$255,000 in 2013, did not apply.

Payments Upon Termination or Change of Control

Messrs. Berthiaume, Caputo, Ornell and Beaudouin and Ms. Rae do not have employment agreements with the Company. However, each is party to an Executive Change of Control/Severance Agreement dated February 24, 2004 and amended February 27, 2008. Under the terms of their agreements, as amended, if any such executive's employment is terminated without cause during the period beginning 9 months prior to, and ending 18 months following, a "change of control" of the Company (as defined in the agreement), or such executive terminates his or her employment "for good reason" (as defined in the agreement) during the 18 month period following a change of control of the Company, such officer would be entitled to receive the following in a lump sum payment:

- Two times annual base salary;
- Two times the greater of the annual accrued incentive plan payment in the year of termination or the target incentive plan payout; and
- Twenty-four months of continued insurance benefit coverage (life, accident, health and dental) substantially similar to the coverage he or she had been receiving prior to any such termination, or the premium equivalent.

For purposes of these agreements, "change of control" generally refers to the closing of a merger, consolidation, liquidation or reorganization of the Company after which the Company does not represent more than 50% of the resulting entity; the acquisition of more than 50% of the voting stock of the Company; or the sale of substantially all of the Company's assets. Within the meaning of these agreements, "good reason termination" generally refers to a material reduction or change by the Company to a named executive officer's responsibilities, base compensation or place of business following a "change of control". A material breach by the Company of an agreement between the named executive officer and the Company will also trigger a "good reason termination". The named executive officer is responsible for providing notice to the Company of a "good reason termination" and the Company will have 30 days after the notice to remedy the cause of the "good reason termination".

The agreements further provide that the benefits will be supplemented by an additional payment to "gross up" the executive for any excise tax under the "golden parachute" excise tax provisions of §§280G and 4999 of the Internal Revenue Code to ensure that after the payments for change of control, the executive is in the same economic position as if the payment were not subject to an excise tax. This additional payment would be equal to the sum of the excise tax on any "parachute payment" and the additional tax attributable to the receipt of the gross-up payment. While these existing agreements contain an excise tax provision under §§280G and 4999 of the Internal Revenue Code, no agreements executed after February 27, 2008 contain a provision for an excise tax gross-up.

In addition, under the terms and conditions of the named executive officers' stock option and restricted stock unit agreements issued under the 2003 and 2012 Equity Incentive Plans, in the event of a change of control, all of their outstanding and unvested stock options and restricted stock units will fully accelerate and become fully exercisable.

If the employment of the named executive officers had been terminated without cause or any officer resigned for good reason on December 31, 2013 and within 18 months of a change of control, they would have received the following cash severance and incremental benefits (given retroactive effect to the changes made) based on the price per share as of December 31, 2013.

Potential Payments Upon Termination Following a Change of Control							
Name	Cash Severance		Other Benefits				Total Value of Change-in-Control Related Benefits
	Base Salary (2X Current Base Salary)	Incentive Plan (2X Target)	Benefits Continuation	In-the-Money Value of Accelerated Stock Options	Value of Accelerated Restricted Stock Units	Excise Tax Gross-Up	
Douglas A. Berthiaume	\$1,548,074	\$1,935,093	\$37,845	—	—	—	\$3,521,012
Arthur G. Caputo	\$986,502	\$1,085,152	\$25,938	\$4,346,270	\$1,837,900	—	\$8,281,762
John A. Ornell	\$804,526	\$804,526	\$38,546	\$2,280,120	\$254,600	—	\$4,182,318
Mark T. Beaudouin	\$777,978	\$583,484	\$37,660	\$1,931,330	\$1,008,000	—	\$4,338,452
Elizabeth B. Rae	\$475,948	\$237,974	\$37,081	\$1,528,840	\$729,000	—	\$3,008,843

The cash severance was calculated assuming the base salary and annual incentive plan target under the Management Incentive Plan for 2013, in effect on December 31, 2013. The benefit continuation payment is based on premium costs as of December 31, 2013.

DIRECTOR COMPENSATION

The table below summarizes the director compensation for the Company's non-employee directors in the last fiscal year.

Director Compensation Fiscal Year 2013				
Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Total (\$)
(a)	(b)	(c)	(d)	(h)
Joshua Bekenstein	\$70,000	\$133,065	\$96,760	\$299,825
Michael J. Berendt, Ph.D.	\$74,500	\$133,065	\$96,760	\$304,325
Edward Conard	\$73,000	\$133,065	\$96,760	\$302,825
Laurie H. Glimcher	\$67,000	\$133,065	\$96,760	\$296,825
Christopher A. Kuebler	\$88,000	\$133,065	\$96,760	\$317,825
William J. Miller	\$107,500	\$133,065	\$96,760	\$337,325
JoAnn A. Reed	\$76,000	\$133,065	\$96,760	\$305,825
Thomas P. Salice	\$133,000	\$133,065	\$96,760	\$362,825

- (c) Messrs. Bekenstein, Berendt, Conard, Kuebler, Miller and Salice, and Mss. Glimcher and Reed were each granted 1,500 restricted stock awards on January 2, 2013, with a grant date fair value of \$88.71 and a vesting date of January 2, 2014. The closing price of the common stock was \$88.71 on January 2, 2013. On December 31, 2013, all Directors held 4,500 shares of unvested restricted stock.
- (d) Messrs. Bekenstein, Berendt, Conard, Kuebler, Miller and Salice, and Mss. Glimcher and Reed were each granted 4,000 non-qualified stock options on January 2, 2013, with an exercise price of \$88.71 and a grant date fair value of \$24.19. These non-qualified stock options vested in full on January 2, 2014. The closing price of the common stock on January 2, 2013 was \$88.71 per share. The outstanding non-qualified stock options for Messrs. Bekenstein, Berendt, Conard, Kuebler, Miller and Salice, and Mss. Glimcher and Reed

on December 31, 2013, were 35,000, 39,000, 35,000, 31,000, 35,000, 35,000, 15,700 and 31,000 options, respectively. FASB ASC Topic 718 is the accounting standard used in determining the aggregate grant date fair value of the option awarded. The aggregate grant date fair value of the option awarded was determined using the Black Scholes option pricing model without regard to estimated forfeitures. The assumptions used to calculate this amount are disclosed in Footnote 11 Stock-Based Compensation in the Waters 2013 Annual Report for the fiscal year ended December 31, 2013.

Board compensation in 2013 remained the same as in 2012 and included a retainer of \$55,000 for the year, paid quarterly, and \$1,500 for each Board and committee meeting attended. The lead director received an additional annual retainer of \$15,000 resulting in a total annual retainer of \$70,000. The annual retainer for the Audit Committee chairman was \$15,000. The chairmen of both the Nominating and Corporate Governance and Compensation Committees each received a \$7,500 annual retainer. As is our consistent practice, equity compensation was granted to directors on the first business day of the fiscal year and each director received 4,000 non-qualified stock options and 1,500 shares of restricted stock on January 2, 2013. The exercise price of the stock option grant was equal to the closing price on the grant date.

All Directors are also reimbursed for expenses incurred in connection with their attendance at meetings. Directors who are full-time employees of the Company receive no additional compensation or benefits for service on the Board or its committees.

The Compensation Committee utilizes an external consultant, Pearl Meyer & Partners, to provide advice on the structure of Director compensation. Pearl Meyer & Partners and the Compensation Committee utilize sources of data consistent with the executive compensation assessment which include the Industry Peer Group of 16 publicly traded companies described above in the Compensation Discussion and Analysis. There were no changes made to the annual Board retainer, the Committee Chairman retainers or the meeting fees for 2014. Consistent with prior practice, equity grants of 1,500 shares of restricted stock and 4,000 non-qualified stock options were made on the first business day of the year, January 2, 2014. The exercise price of the non-qualified stock option grant was equal to \$99.22, the closing price on January 2, 2014. Based on the competitive assessment by Pearl Meyer & Partners and to align equity practices for the Board with that of the Peer Group, both the 2013 and 2014 restricted stock and non-qualified stock option grants to directors have a one year vesting provision. Additionally, the 2013 and 2014 restricted stock and stock option grant agreements provide for acceleration of any unvested restricted stock or stock options upon death of a Director.

The Company also sponsors the 1996 Non-Employee Director Deferred Compensation Plan, which provides non-employee members of the Board with the opportunity to defer 100% of retainer, meeting and committee fees. Fees may be deferred in cash or invested in Waters common stock units. If a director elects to defer his or her fees in Waters common stock units, the amount deferred is converted into common stock units by dividing the amount of fees payable by the average stock price of the Company's common stock for the fiscal quarter. Fees deferred in cash are credited with an interest rate equal to the lesser of the Prime Rate plus 50 basis points or the maximum rate of interest that may be used without being treated as an "above market" interest rate under the SEC guidelines. Messrs. Bekenstein and Conard elected to defer fees into Waters common stock units in 2013 and Ms. Glimcher elected to defer her fees into cash.

COMPENSATION COMMITTEE REPORT

The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Waters specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Exchange Act.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis as required by Item 402(b) of Regulation S-K of the Exchange Act. Based on its review and these discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Mr. William J. Miller, Chair Mr. Joshua Bekenstein Mr. Christopher A. Kuebler Mr. Thomas P. Salice

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth certain information regarding beneficial ownership of common stock as of March 21, 2014 by each person or entity known to the Company who owns beneficially five percent or more of the common stock, by each named executive officer and Director nominee and all executive officers and Director nominees as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Outstanding Common Stock(1)
5% Stockholders		
Massachusetts Financial Services Company(2)	11,115,982	13.11%
BlackRock, Inc.(3)	5,686,920	6.71%
The Vanguard Group, Inc.(4)	5,574,388	6.58%
Generation Investment Management LLP(5)	4,484,052	5.29%
Executive Officers and Directors		
Mark T. Beaudouin(6)(7)	26,701	*
Douglas A. Berthiaume(6)(8)	3,264,697	3.84%
Arthur G. Caputo(6)	687,412	*
John Ornell(9)	12,563	*
Elizabeth Rae(6)(10)	61,897	*
Joshua Bekenstein(6)(11)	75,700	*
Dr. Michael J. Berendt(6)	45,200	*
Edward Conard(6)(11)	71,700	*
Dr. Laurie H. Glimcher(6)	17,500	*
Christopher A. Kuebler(6)	37,700	*
William J. Miller(6)(11)	45,700	*
JoAnn A. Reed(6)	37,700	*
Thomas P. Salice(6)(11)(12)	116,798	*
All Directors and Executive Officers as a group (14 persons)	4,602,181	5.36%

* Represents less than 1% of the total number of the issued and outstanding shares of common stock.

- (1) Figures are based upon 84,763,662 of common stock outstanding as of March 21, 2014. The figures assume exercise by only the stockholder or group named in each row of all options for the purchase of common stock held by such stockholder or group which are exercisable within 60 days of March 21, 2014.
- (2) Amounts shown reflect the aggregate number of shares of common stock beneficially owned by Massachusetts Financial Services Company ("MFS") based on information set forth in Schedule 13G/A filed with the SEC on February 14, 2014. The Schedule 13G/A indicates that MFS was the beneficial owner with sole dispositive power as to 11,115,982 shares, with sole voting power as to 8,687,523 shares and shared voting power as to none of the shares. The address of MFS is 111 Huntington Ave, Boston, MA 02199.
- (3) Amounts shown reflect the aggregate number of shares of common stock beneficially owned by BlackRock, Inc. based on information set forth in Schedule 13G/A filed with the SEC on February 14, 2014. The Schedule 13G/A indicates that Blackrock, Inc. was the beneficial owner with sole dispositive power as to 5,686,920 shares and sole voting power as to 4,812,403 shares. The address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.
- (4) Amounts shown reflect the aggregate number of shares of common stock beneficially owned by The Vanguard Group, Inc. based on information set forth in Schedule 13G/A filed with the SEC on February 14, 2014. The Schedule 13G/A indicates that the Vanguard Group, Inc. was the beneficial owner with sole dispositive power as to 5,444,043 shares, shared dispositive power as to the 130,345 shares, sole voting power

as to 140,945 shares and shared voting power as to none of the shares. The address of The Vanguard Group, Inc. is 100 Vanguard Boulevard, Malvern, PA 19355.

- (5) Amounts shown reflect the aggregate number of shares of common stock beneficially owned by Generation Investment Management LLP based on information set forth in Schedule 13G/A filed with the SEC on February 14, 2014. The Schedule 13G/A indicates that Generation Investment Management LLP was the beneficial owner with sole dispositive power as to 4,484,052 shares, sole voting power as to 3,028,707 shares and shared voting power as to 135,284 shares. The address of Generation Investment Management LLP is 20 Air Street, 7th Floor, London W1B 5AN, United Kingdom.
- (6) Includes share amounts which the named individuals have the right to acquire through the exercise of options which are exercisable within 60 days of March 21, 2014 as follows: Mr. Beaudouin 10,000, Mr. Berthiaume 150,000, Mr. Caputo 597,000, Ms. Rae 48,000, Mr. Bekenstein 30,200, Dr. Berendt 30,200, Mr. Conard 30,200, Dr. Glimcher 8,000, Mr. Kuebler 26,200, Mr. Miller 26,200, Ms. Reed 26,200 and Mr. Salice 30,200.
- (7) Includes 5,646 shares held in Mr. Beaudouin's ESPP and 401(k) accounts.
- (8) Includes 69,000 shares held by Mr. Berthiaume's wife, 794,562 shares held by a family limited partnership, 34,424 shares held in Mr. Berthiaume's 401(k) Plan and 25,252 shares held in a family trust. Mr. Berthiaume disclaims beneficial ownership for the shares held by his wife, the shares held in a family trust and the shares held by a family limited partnership.
- (9) Includes 7,012 shares held in Mr. Ornell's ESPP and 401(k) accounts.
- (10) Includes 5,708 shares held in Ms. Rae's ESPP and 401(k) accounts.
- (11) Excludes deferred compensation in the form of phantom stock, receipt of which may be, at the election of the Director, on a specified date at least six months in the future or upon his or her cessation of service as a Director of the Company.
- (12) Includes 3,000 shares held in Mr. Salice's Individual Retirement Account, 7,950 shares held by a charitable trust over which Mr. Salice shares voting and investment power with his spouse as trustees and 69,648 shares held by an LLC over which Mr. Salice has voting and investment power. Mr. Salice disclaims beneficial ownership of the shares held by the charitable trust and of the shares held by the LLC, except to the extent of his pecuniary interest in the LLC.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Federal securities laws require the Company's Directors, executive officers, and persons who own more than 10% of the common stock of Waters to file with the SEC, the New York Stock Exchange and the Secretary of the Company initial reports of beneficial ownership and reports of changes in beneficial ownership of the common stock.

To the Company's knowledge, based solely on review of the copies of such reports and written representations furnished to the Company that no other reports were required, none of the Company's executive officers, Directors and greater-than-ten-percent beneficial owners failed to file any such report on a timely basis during the fiscal year ended December 31, 2013.

STOCKHOLDER PROPOSALS

Proposals of stockholders to be presented at the 2015 Annual Meeting of Stockholders anticipated to be scheduled on or about May 15, 2015, must be received by the Secretary of the Company at 34 Maple Street, Milford, Massachusetts 01757 in the following manner. Proposals that are submitted pursuant to Rule 14a-8 under the Exchange Act, and are to be considered for inclusion in the Company's Proxy Statement and form of Proxy relating to that meeting, must be received by December 5, 2014. All other proposals must be received during the 60 to 90 day period preceding that meeting.

STOCKHOLDERS SHARING AN ADDRESS

Only one copy of our Annual Report, Proxy Statement or Notice is being delivered to multiple security holders sharing an address, unless we have received instructions to the contrary from one or more of the stockholders.

We will undertake to deliver promptly upon written or oral request a separate copy our Annual Report, the Proxy Statement or Notice to any stockholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of our Annual Report, Proxy Statement or Notice, or if two stockholders sharing an address have received two copies of any of these documents and desire to only receive one in the future, you may write to the Director of Investor Relations at our principal executive offices at 34 Maple Street, Milford, Massachusetts 01757 or call the Vice President of Investor Relations of Waters at (508) 482-2349.

EXHIBIT A

WATERS CORPORATION

MANAGEMENT INCENTIVE PLAN

1. Purpose

The purpose of this Plan is to (i) align the interests of eligible employees with the Company's shareholders, (ii) motivate eligible employees to achieve annual financial and operating targets, (iii) provide increasing levels of incentive plan payout opportunity consistent with increasing levels of annual financial performance, (iv) enhance individual accountability for goal achievement and align employee interests and objectives world-wide, and (v) attract and retain key employees.

2. Definitions

As used in this Plan, the following terms shall have the following meanings:

2.1. Affiliate means any corporation, partnership, limited liability company, business trust, or other entity controlling, controlled by or under common control with the Company.

2.2. Award means a right to receive a cash incentive payment pursuant to the terms and conditions of the Plan.

2.3. Board means the Company's Board of Directors.

2.4. Code means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute thereto, and any regulations issued from time to time thereunder.

2.5. Committee means the Compensation Committee of the Board, which in general is responsible for the administration of the Plan, as provided in Section 3 of this Plan. For any period during which no such committee is in existence "Committee" shall mean the Board and all authority and responsibility assigned to the Committee under the Plan shall be exercised, if at all, by the Board.

2.6. Company means Waters Corporation, a corporation organized under the laws of the State of Delaware.

2.7. Covered Employee means a Participant who is a "covered employee" within the meaning of Section 162(m) of the Code.

2.8. Participant means an employee who is a holder of an Award under the Plan.

2.9. Performance Criteria means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. Solely with respect to Awards to Covered Employees, the Performance Criteria used to establish Performance Goals are limited to: (i) cash flow (before or after dividends), (ii) earnings per share (including, without limitation, earnings before interest, taxes, depreciation and amortization), (iii) stock price, (iv) return on equity, (v) stockholder return or total stockholder return, (vi) return on capital (including, without limitation, return on total capital or return on invested capital), (vii) return on investment, (viii) return on assets or net assets, (ix) market capitalization, (x) economic value added, (xi) debt leverage (debt to capital), (xii) revenue, (xiii) sales or net sales, (xiv) backlog, (xv) income, pre-tax income or net income, (xvi) operating income or pre-tax profit, (xvii) operating profit, net operating profit or economic profit, (xviii) gross margin, operating margin or profit margin, (xix) return on operating revenue or return on operating assets, (xx) cash from operations, (xxi) operating ratio, (xxii) operating revenue, (xxiii) market share improvement, (xxiv) general and administrative expenses and (xxv) customer service. The Performance Criteria used to establish Performance Goals for Participants who are not Covered Employees shall not be so limited solely by reason of this Section.

2.10. Performance Goals means, for a Performance Period, the written goal or goals established by the Committee for the Performance Period based upon the Performance Criteria. The Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, subsidiary, or an individual, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Affiliate, either individually, alternatively or in any combination, and measured either quarterly, semi-annually, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee. The Committee will, in the manner and within the time prescribed by Section 162(m) of the Code in the case of Qualified Performance-Based Awards, objectively define the manner of calculating the Performance Goal or Goals it selects to use for such Performance Period for any Participant. Solely with respect to Awards to Covered Employees, and to the extent consistent with Section 162(m) of the Code (in the case of Qualified Performance-Based Awards), the Committee may appropriately adjust any evaluation of performance against a Performance Goal to exclude any of the following events that occurs during a Performance Period: (i) asset write-downs, (ii) litigation, claims, judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary, unusual, non-recurring or non-comparable items (A) as described in Accounting Principles Board Opinion No. 30, (B) as described in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report to stockholders for the applicable year, or (C) publicly announced by the Company in a press release or conference call relating to the Company's results of operations or financial condition for a completed quarterly or annual fiscal period. With respect to Awards to Participants who are not Covered Employees, the Committee may exclude or otherwise take into account such other events that occur during a Performance Period as it deems appropriate in its sole discretion.

2.11. Performance Period means a period set by the Committee in accordance with Section 5.3(d) of the Plan over which the attainment of one or more Performance Goals or other business objectives will be measured for purposes of determining a Participant's right to payment pursuant to an Award.

2.12. Plan means this Management Incentive Plan of the Company, as amended from time to time, and including any attachments or addenda hereto.

2.13. Qualified Performance-Based Awards means Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

3. Administration

The Plan shall be administered by the Committee; *provided, however*, that at any time and on any one or more occasions the Board may itself exercise any of the powers and responsibilities assigned the Committee under the Plan and when so acting shall have the benefit of all of the provisions of the Plan pertaining to the Committee's exercise of its authorities hereunder; *and provided, further*, that with respect to Awards to Participants who are not Covered Employees, the Committee may delegate to an executive officer, officer or employee the authority to exercise any of the powers and responsibilities assigned to the Committee under the Plan including the authority to grant Awards to such Participants. Subject to the provisions of the Plan, the Committee shall have complete authority, in its discretion, to make or to select the manner of making all determinations with respect to the Plan. In making such determinations, the Committee may take into account the nature of the services rendered by employees, their present and potential contributions to the success of the Company and its Affiliates, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of the Plan, the Committee shall also have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, and to make all other determinations necessary or advisable for the administration of the Plan. The Committee's determinations made in good faith on matters referred to in the Plan shall be final, binding and conclusive on all persons having or claiming any interest under the Plan or an Award granted pursuant hereto.

4. Eligibility for Awards

4.1. Eligibility. The Committee may from time to time and at any time prior to the termination of the Plan grant Awards to any employee of one or more of the Company and its Affiliates.

4.2. Effect of Termination of Employment, Etc. Unless the Committee shall provide otherwise with respect to any Award, in order to be eligible to receive payment pursuant to an Award, a Participant must have remained in the continuous employ of the Company and its Affiliates through the end of the applicable Performance Period and until date on which the Award payment is paid, except as follows:

(a) In the event of a Participant's termination of employment during the Performance Period due to death or disability the Committee may, in its sole discretion, authorize the Company or the applicable Affiliate to make payment, in full or on a prorated basis, pursuant to an Award, subject, unless the Committee determines otherwise, to achievement of the Performance Goal or Goals within the applicable Performance Period.

(b) In the event of the retirement (as determined by the Committee) of a Participant who is not a Covered Employee during the Performance Period, the Committee may, in its sole discretion, authorize the Company or the applicable Affiliate to make payment, in full or on a prorated basis, pursuant to an Award, subject, unless the Committee determines otherwise, to achievement of the Performance Goal or Goals within the applicable Performance Period.

(c) In the event of the retirement (as determined by the Committee) during the Performance Period of a Participant who is a Covered Employee, the Committee may, in its sole discretion, authorize the Company or the applicable Affiliate to make payment, in full or on a prorated basis, pursuant to an Award so long as the Committee has determined that the applicable Performance Goal or Goals were achieved within the applicable Performance Period.

5. Terms of Awards

5.1. General Terms. A Participant's eligibility for an Award shall be subject to all applicable terms and conditions of the Plan and such other terms and conditions, not inconsistent with the terms of the Plan, as the Committee may prescribe. No prospective Participant shall have any rights with respect to an Award, unless and until such Participant shall have complied with the applicable terms and conditions of such Award. The Committee shall set Performance Goals or other business objectives in its discretion which, depending on the extent to which they are met within the applicable Performance Period, will determine the payment to be made to the Participant pursuant to the terms of his or her Award. After the applicable Performance Period has ended, the Participant shall be entitled to payment pursuant to the terms of his or her Award, to be determined as a function of the extent to which the corresponding Performance Goals or other business objectives have been achieved. This Plan and all Awards granted hereunder are subject to all applicable Company policies duly adopted by the Board, the Committee or any other committee of the Board and as in effect from time to time including the Policy for Recoupment of Incentive Compensation effective March 3, 2010, (the "Recoupment Policy"), and any other policies intended to avoid or recover compensation payable or paid on a basis similar to the Recoupment Policy.

5.2. Payments. Payment pursuant to an Award which is subject to U.S. taxation shall be made in a single lump sum on or before the March 15th next following the close of the applicable Performance Period. Payment pursuant to an Award which is not subject to U.S. taxation shall be made in a single lump sum on or about the March 15th next following the close of the applicable Performance Period or as soon as practicable thereafter.

5.3. Qualified Performance-Based Awards.

(a) Purpose. The purpose of this Section 5.3 is to provide the Committee the ability (but not the obligation) to qualify Awards as "performance-based compensation" under Section 162(m) of the Code. If the Committee, in its discretion, decides to grant an Award as a Qualified Performance-Based Award, the provisions of this Section 5.3 will control over any contrary provision contained in the Plan. In the course of granting any Award, the Committee may specifically designate the Award as intended to qualify as a Qualified Performance-Based Award. However, no Award shall be considered to have failed to qualify as a Qualified Performance-Based

Award solely because the Award is not expressly designated as a Qualified Performance-Based Award, if the Award otherwise satisfies the provisions of this Section 5.3 and the requirements of Section 162(m) of the Code and the regulations promulgated thereunder applicable to “performance-based compensation.”

(b) Authority. All grants of Awards intended to qualify as Qualified Performance-Based Awards and determination of terms applicable thereto shall be made by the Committee or, if not all of the members thereof qualify as “outside directors” within the meaning of applicable IRS regulations under Section 162 of the Code, a subcommittee of the Committee consisting of such of the members of the Committee as do so qualify. Any action by such a subcommittee shall be considered the action of the Committee for purposes of the Plan.

(c) Applicability. This Section 5.3 will apply only to those Covered Employees, or to those persons who the Committee determines are reasonably likely to become Covered Employees in the period covered by an Award, selected by the Committee to receive Qualified Performance-Based Awards. The Committee may, in its discretion, grant Awards to Covered Employees that do not satisfy the requirements of this Section 5.3.

(d) Discretion of Committee with Respect to Qualified Performance-Based Awards. Each Award intended to qualify as a Qualified Performance-Based Award shall be subject to satisfaction of one or more Performance Goals. The Committee will have full discretion to select the length of any applicable Performance Period, the kind and/or level of the applicable Performance Goal, and whether the Performance Goal is to apply to the Company, an Affiliate or any division or business unit, or to the individual. Any Performance Goal or Goals applicable to Qualified Performance-Based Awards shall be objective, shall be established not later than ninety (90) days after the beginning of any applicable Performance Period (or at such other date as may be required or permitted for “performance-based compensation” under Section 162(m) of the Code) and shall otherwise meet the requirements of Section 162(m) of the Code, including the requirement that the outcome of the Performance Goal or Goals be substantially uncertain (as defined in the regulations under Section 162(m) of the Code) at the time established.

(e) Payment of Qualified Performance-Based Awards. Except as otherwise provided in Section 4.2(a), a Participant will be eligible to receive payment under a Qualified Performance-Based Award which is subject to achievement of a Performance Goal or Goals only if the applicable Performance Goal or Goals are achieved within the applicable Performance Period, as determined by the Committee. In determining the actual size of an individual Qualified Performance-Based Award, the Committee may reduce or eliminate the amount of the Qualified Performance-Based Award earned for the Performance Period, if in its sole and absolute discretion, such reduction or elimination is appropriate.

(f) Maximum Amount Payable. The maximum amount payable pursuant to Qualified Performance-Based Awards to any one Participant under the Plan for any Performance Period is \$7,500,000.

(g) Limitation on Adjustments for Certain Events. Unless otherwise approved by the Committee, no adjustment of any Qualified Performance-Based Award pursuant to Section 6 shall be made except on such basis, if any, as will not cause such Award to provide other than “performance-based compensation” within the meaning of Section 162(m) of the Code.

6. Adjustment Provisions

6.1. Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. In the event of any corporate action including but not limited to a merger or consolidation of the Company with or into another entity, a sale, transfer, or other disposition of all or substantially all of the Company’s assets to one or more other persons in a single transaction or series of related transactions, a liquidation or dissolution of the Company, a reorganization, a recapitalization, a reclassification, a stock dividend, a stock split, a reverse stock split, or other similar distribution, the Committee may make such adjustment of outstanding Awards and their terms, if any, as it, in its sole discretion, may deem equitable and appropriate in the circumstances. In addition, the Committee may make adjustments in the terms and conditions of, and the Performance Criteria included in Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in this Section) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

6.2. Related Matters. Any adjustment in Awards made pursuant to Section 6.1 shall be determined and made, if at all, by the Committee, acting in its sole discretion, and shall include any correlative modification of terms, including Performance Goals and other financial objectives which the Committee may deem necessary or appropriate so as to ensure the rights of the Participants in their respective Awards are not substantially diminished nor enlarged as a result of the adjustment and corporate action other than as expressly contemplated in this Section 6.

7. No Special Service Rights

Nothing contained in the Plan or in any Award Agreement shall confer upon any Participant any right with respect to the continuation of his or her employment with the Company (or any Affiliate), or interfere in any way with the right of the Company (or any Affiliate), subject to the terms of any separate employment agreement or provision of law or corporate articles or by-laws to the contrary, at any time to terminate such employment relationship or to increase or decrease, or otherwise adjust, the other terms and conditions of the Participant's employment with the Company and its Affiliates.

8. Section 409A; Unfunded Status of Plan

This Plan is intended to be exempt from Section 409A of the Code and the rules and regulations promulgated thereunder (collectively, "Section 409A"). By participating in the Plan, each Participant acknowledges that he or she bears the entire risk of any adverse federal and State tax consequences and penalty taxes in the event any payment pursuant to this Plan is deemed to be subject to Section 409A and that no representations have been made to Participant relating to the tax treatment of any payment pursuant to this Plan under Section 409A of the Code and the corresponding provisions of any applicable State income tax laws.

The Plan is intended to constitute an "unfunded" plan for incentive compensation, and the Plan is not intended to constitute a plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan, provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

9. Termination and Amendment of the Plan

9.1. Termination or Amendment of the Plan. The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable. Unless the Board otherwise expressly provides, no amendment of the Plan shall affect the terms of any Award outstanding on the date of such amendment.

9.2. Amendment of Outstanding Awards. The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, provided that the Award as amended is consistent with the terms of the Plan.

9.3. Limitations on Amendments, Etc. Except as otherwise provided herein, no amendment or modification of the Plan by the Board, or of an outstanding Award by the Committee, shall impair the rights of the recipient of any Award outstanding on the date of such amendment or modification of such Award, as the case may be, without the Participant's consent; *provided, however*, that no such consent shall be required if (i) the Board or Committee, as the case may be, determines in its sole discretion and prior to the date of any change of control that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation, including without limitation the provisions of Section 409A of the Code, or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard, or (ii) the Board or Committee, as the case may be, determines in its sole discretion and prior to the date of any change of control that such amendment or alteration is not reasonably likely to significantly diminish the benefits provided under the Award, or that any such diminution has been adequately compensated.

10. Notices and Other Communications

Any notice, demand, request or other communication hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person or duly sent by first class registered, certified or overnight mail, postage prepaid, or telecopied with a confirmation copy by regular, certified or overnight mail, addressed or telecopied, as the case may be, (i) if to a Participant, at his or her residence address last filed with the Company and (ii) if to the Company, at its principal place of business, addressed to the attention of its Treasurer, or to such other address or telecopier number, as the case may be, as the addressee may have designated by notice to the addressor. All such notices, requests, demands and other communications shall be deemed to have been received: (i) in the case of personal delivery, on the date of such delivery; (ii) in the case of mailing, when received by the addressee; and (iii) in the case of facsimile transmission, when confirmed by facsimile machine report.

11. Governing Law

The Plan and all Awards and actions taken thereunder shall be governed, interpreted and enforced in accordance with the laws of the State of Delaware without regard to the conflict of laws principles thereof.

Notes

Notes

DIRECTORS

Joshua Bekenstein
Managing Director
Bain Capital, LLC

Michael J. Berendt, Ph.D.
Chief Executive Officer
Bioniche Life Sciences Inc.

Douglas A. Berthiaume
Chairman, President and
Chief Executive Officer
Waters Corporation

Edward Conard
Independent Director and Investor

Laurie H. Glimcher, M.D.
The Stephen and Suzanne Weiss Dean
Provost for Medical Affairs
Weill Cornell Medical College
of Cornell University

Christopher A. Kuebler
Independent Director and Investor

William J. Miller
Independent Director and Investor

JoAnn A. Reed
Health Care Services Consultant

Thomas P. Salice
Managing Member
SFW Capital Partners, LLC

EXECUTIVE OFFICERS

Douglas A. Berthiaume
Chairman, President and
Chief Executive Officer

Mark T. Beaudouin
Vice President
General Counsel and Secretary

Arthur G. Caputo
Executive Vice President and
President, Waters Division

Eugene G. Cassis
Vice President and
Chief Financial Officer

Elizabeth B. Rae
Vice President
Human Resources

TRANSFER AGENT AND REGISTRAR

Shareholder correspondence should
be mailed to:
Computershare
P.O. Box 30170
College Station, TX 77842-3170

Overnight correspondence should
be mailed to:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder website:
www.computershare.com/investor
Shareholder online inquiries:
[https://www-us.computershare.com/
investor/Contact](https://www-us.computershare.com/investor/Contact)

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
125 High Street
Boston, Massachusetts 02110

ATTORNEYS

Bingham McCutchen LLP
One Federal Street
Boston, Massachusetts 02110-1726

STOCKHOLDERS' MEETING

Date: Thursday, May 15, 11:00 a.m.
Location: Waters Corporation,
34 Maple Street, Milford, Massachusetts
Directions: Call 800-252-4752, Ext. 3314
or www.waters.com/directionsMilford

STOCKLIST SYMBOL

NYSE: WAT

INVESTOR RELATIONS

Eugene G. Cassis
Vice President and
Chief Financial Officer
508-482-2349
gene_cassis@waters.com

FORM 10-K

A copy of the Company's 10-K, filed with
the Securities and Exchange Commission,
is available without charge upon written
request to:

Waters Corporation
34 Maple Street
Milford, Massachusetts 01757

OFFICES

Corporate Headquarters
Waters Corporation
34 Maple Street
Milford, Massachusetts 01757
Phone: 508-478-2000
Toll Free: 800-252-4752
Fax: 508-872-1990
Email: info@waters.com
URL: www.waters.com



Waters

THE SCIENCE OF WHAT'S POSSIBLE.®

Waters, The Science of What's Possible, ACQUITY UPLC, ACQUITY UltraPerformance LC, UPLC, Xevo and Synapt are registered trademarks of Waters Corporation. QDa, Q-ToF, T-Wave are trademarks of waters Corporation. All other trademarks are the property of their respective owners.

©2014 Waters Corporation. Printed in the U.S.A.
March 2014 720004965EN AO-RRD

Waters Corporation

34 Maple Street
Milford, MA 01757 U.S.A.
T: 508 478 2000
F: 508 872 1990
www.waters.com

