

WATERS CORP /DE/
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to .

Commission File Number: 01-14010

Waters Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

34 Maple Street

Milford, Massachusetts 01757

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

(508) 478-2000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of the registrant's common stock as of July 27, 2012: 87,678,039

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WATERS CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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| | June 30, 2012 | December 31, 2011 |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 369,429 | \$ 383,990 |
| Short-term investments | 1,022,708 | 897,361 |
| Accounts receivable, less allowances for doubtful accounts and sales returns of \$6,343 and \$8,584 at June 30, 2012 and December 31, 2011, respectively | 355,144 | 367,085 |
| Inventories | 236,763 | 212,864 |
| Other current assets | 81,248 | 80,804 |
| Total current assets | 2,065,292 | 1,942,104 |
| Property, plant and equipment, net | 251,357 | 237,095 |
| Intangible assets, net | 199,013 | 191,992 |
| Goodwill | 306,770 | 297,071 |
| Other assets | 61,124 | 54,972 |
| Total assets | \$ 2,883,556 | \$ 2,723,234 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable and debt | \$ 401,354 | \$ 290,832 |
| Accounts payable | 62,792 | 55,317 |
| Accrued employee compensation | 26,462 | 49,949 |
| Deferred revenue and customer advances | 133,388 | 109,922 |
| Accrued income taxes | 13,658 | 9,449 |
| Accrued warranty | 12,253 | 13,258 |
| Other current liabilities | 71,750 | 73,136 |
| Total current liabilities | 721,657 | 601,863 |
| Long-term liabilities: | | |
| Long-term debt | 700,000 | 700,000 |
| Long-term portion of retirement benefits | 97,059 | 92,970 |
| Long-term income tax liability | 71,014 | 72,613 |
| Other long-term liabilities | 31,143 | 29,210 |
| Total long-term liabilities | 899,216 | 894,793 |
| Total liabilities | 1,620,873 | 1,496,656 |
| Commitments and contingencies (Notes 5, 6 and 9) | | |
| Stockholders equity: | | |
| Preferred stock, par value \$0.01 per share, 5,000 shares authorized, none issued at June 30, 2012 and December 31, 2011 | 1,534 | 1,528 |

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Common stock, par value \$0.01 per share, 400,000 shares authorized, 153,449 and 152,757 shares issued, 87,663 and 88,996 shares outstanding at June 30, 2012 and December 31, 2011, respectively

| | | |
|--|---------------------|---------------------|
| Additional paid-in capital | 1,128,521 | 1,089,959 |
| Retained earnings | 3,237,837 | 3,051,447 |
| Treasury stock, at cost, 65,786 and 63,761 shares at June 30, 2012 and December 31, 2011, respectively | (3,051,620) | (2,880,301) |
| Accumulated other comprehensive loss | (53,589) | (36,055) |
| Total stockholders' equity | 1,262,683 | 1,226,578 |
| | | |
| Total liabilities and stockholders' equity | \$ 2,883,556 | \$ 2,723,234 |

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

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WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(unaudited)

| | Three Months Ended | |
|--|---------------------------|---------------------|
| | June 30, 2012 | July 2, 2011 |
| Product sales | \$ 313,855 | \$ 316,150 |
| Service sales | 137,610 | 131,477 |
| Total net sales | 451,465 | 447,627 |
| Cost of product sales | 120,321 | 121,280 |
| Cost of service sales | 58,938 | 54,823 |
| Total cost of sales | 179,259 | 176,103 |
| Gross profit | 272,206 | 271,524 |
| Selling and administrative expenses | 122,682 | 125,439 |
| Research and development expenses | 23,943 | 23,014 |
| Purchased intangibles amortization | 2,458 | 2,504 |
| Litigation provision | 3,000 | |
| Operating income | 120,123 | 120,567 |
| Interest expense | (6,878) | (5,052) |
| Interest income | 1,031 | 813 |
| Income from operations before income taxes | 114,276 | 116,328 |
| Provision for income taxes | 16,552 | 16,253 |
| Net income | \$ 97,724 | \$ 100,075 |
| Net income per basic common share | \$ 1.11 | \$ 1.09 |
| Weighted-average number of basic common shares | 88,317 | 91,662 |
| Net income per diluted common share | \$ 1.09 | \$ 1.07 |
| Weighted-average number of diluted common shares and equivalents | 89,381 | 93,271 |

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

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WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(unaudited)

| | Six Months Ended | |
|--|-------------------|-------------------|
| | June 30, 2012 | July 2, 2011 |
| Product sales | \$ 600,362 | \$ 619,486 |
| Service sales | 271,561 | 255,744 |
| Total net sales | 871,923 | 875,230 |
| Cost of product sales | 230,033 | 237,181 |
| Cost of service sales | 116,516 | 108,751 |
| Total cost of sales | 346,549 | 345,932 |
| Gross profit | 525,374 | 529,298 |
| Selling and administrative expenses | 239,801 | 242,563 |
| Research and development expenses | 47,290 | 45,268 |
| Purchased intangibles amortization | 4,943 | 5,005 |
| Litigation provision | 3,000 | |
| Operating income | 230,340 | 236,462 |
| Interest expense | (13,369) | (9,135) |
| Interest income | 1,800 | 1,526 |
| Income from operations before income taxes | 218,771 | 228,853 |
| Provision for income taxes | 32,381 | 34,289 |
| Net income | \$ 186,390 | \$ 194,564 |
| | | |
| Net income per basic common share | \$ 2.10 | \$ 2.12 |
| Weighted-average number of basic common shares | 88,650 | 91,649 |
| Net income per diluted common share | \$ 2.08 | \$ 2.09 |
| Weighted-average number of diluted common shares and equivalents | 89,823 | 93,302 |

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

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WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Net income | \$ 97,724 | \$ 100,075 | \$ 186,390 | \$ 194,564 |
| Other comprehensive income: | | | | |
| Foreign currency translation | (31,352) | 9,947 | (14,125) | 42,053 |
| Unrealized (losses) gains on investments before income taxes | (37) | 41 | (1,005) | 2,529 |
| Income tax benefit (expense) | 12 | (14) | 350 | (885) |
| Unrealized (losses) gains on investments, net of tax | (25) | 27 | (655) | 1,644 |
| Retirement liability adjustment | 1,114 | 372 | (4,603) | 912 |
| Income tax (expense) benefit | (390) | (130) | 1,849 | (319) |
| Retirement liability adjustment, net of tax | 724 | 242 | (2,754) | 593 |
| Other comprehensive (loss) income | (30,653) | 10,216 | (17,534) | 44,290 |
| Comprehensive income | \$ 67,071 | \$ 110,291 | \$ 168,856 | \$ 238,854 |

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

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

| | Six Months Ended | |
|---|------------------|--------------|
| | June 30, 2012 | July 2, 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 186,390 | \$ 194,564 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provisions for doubtful accounts on accounts receivable | 902 | 1,676 |
| Provisions on inventory | 5,960 | 4,892 |
| Stock-based compensation | 14,381 | 13,763 |
| Deferred income taxes | (7,147) | (3,692) |
| Depreciation | 17,168 | 17,939 |
| Amortization of intangibles | 13,435 | 15,506 |
| Change in operating assets and liabilities, net of acquisitions: | | |
| Decrease in accounts receivable | 5,929 | 7,191 |
| Increase in inventories | (29,327) | (36,051) |
| (Increase) decrease in other current assets | (499) | 4,063 |
| Decrease (increase) in other assets | 862 | (1,597) |
| Decrease in accounts payable and other current liabilities | (18,736) | (32,652) |
| Increase in deferred revenue and customer advances | 25,067 | 31,350 |
| Increase in other liabilities | 1,889 | 3,027 |
| Net cash provided by operating activities | 216,274 | 219,979 |
| Cash flows from investing activities: | | |
| Additions to property, plant, equipment and software capitalization | (46,920) | (35,272) |
| Business acquisitions, net of cash acquired | (18,414) | |
| Purchase of short-term investments | (941,612) | (829,598) |
| Maturity of short-term investments | 816,265 | 690,756 |
| Net cash used in investing activities | (190,681) | (174,114) |
| Cash flows from financing activities: | | |
| Proceeds from debt issuances | 137,937 | 297,131 |
| Payments on debt | (28,147) | (227,010) |
| Payments of debt issuance costs | | (1,218) |
| Proceeds from stock plans | 18,685 | 42,974 |
| Purchase of treasury shares | (171,319) | (153,820) |
| Excess tax benefit related to stock option plans | 5,832 | 15,246 |
| Proceeds from debt swaps and other derivative contracts | 475 | 1,970 |
| Net cash used in financing activities | (36,537) | (24,727) |
| Effect of exchange rate changes on cash and cash equivalents | (3,617) | 15,278 |
| (Decrease) increase in cash and cash equivalents | (14,561) | 36,416 |
| Cash and cash equivalents at beginning of period | 383,990 | 308,498 |
| Cash and cash equivalents at end of period | \$ 369,429 | \$ 344,914 |

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

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WATERS CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Presentation and Summary of Significant Accounting Policies

Waters Corporation (Waters® or the Company) is an analytical instrument manufacturer that primarily designs, manufactures, sells and services, 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 and are used along with other analytical instruments. 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), food 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 (TAA), the Company primarily designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments, which are used 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. The Company is also a developer and supplier of software-based products that interface with the Company s instruments and are typically purchased by customers as part of the instrument system.

The Company s interim fiscal quarter typically ends on the thirteenth Saturday of each quarter. Since the Company s fiscal year end is December 31, the first and fourth fiscal quarters may not consist of thirteen complete weeks. The Company s second fiscal quarters for 2012 and 2011 ended on June 30, 2012 and July 2, 2011, respectively.

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

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

It is management s opinion that the accompanying interim consolidated financial statements reflect all adjustments (which are normal and recurring) that are necessary for a fair statement of the results for the interim periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on February 24, 2012.

Cash, Cash Equivalents and Short-Term Investments

The Company s cash equivalents primarily 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 short-term investments, and are held primarily in U.S. treasury bills, Canadian U.S. dollar-denominated treasury bills, bank deposits and investment-grade commercial paper. The Company maintains 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 June 30, 2012 and December 31, 2011, \$1,354 million out of \$1,392 million and \$1,200 million out of \$1,281 million, respectively, of the Company s total cash, cash equivalents and short-term investments were held by foreign subsidiaries and may be subject to material tax repatriation effects.

Table of Contents**CONDENSED 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 June 30, 2012 and December 31, 2011. 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 June 30, 2012 (in thousands):

| | Total at June 30, 2012 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------------|---|---|--|
| Assets: | | | | |
| Cash equivalents | \$ 126,515 | \$ | \$ 126,515 | \$ |
| Short-term investments | 1,022,708 | | 1,022,708 | |
| Waters 401(k) Restoration Plan assets | 22,560 | | 22,560 | |
| Foreign currency exchange contract agreements | 209 | | 209 | |
| Total | \$ 1,171,992 | \$ | \$ 1,171,992 | \$ |
| Liabilities: | | | | |
| Foreign currency exchange contract agreements | \$ 1,188 | \$ | \$ 1,188 | \$ |
| Total | \$ 1,188 | \$ | \$ 1,188 | \$ |

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2011 (in thousands):

| | Total at December 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-------------------------------|---|---|--|
| Assets: | | | | |
| Cash equivalents | \$ 142,966 | \$ | \$ 142,966 | \$ |
| Short-term investments | 897,361 | | 897,361 | |
| Waters 401(k) Restoration Plan assets | 20,667 | | 20,667 | |
| Foreign currency exchange contract agreements | 81 | | 81 | |
| Total | \$ 1,061,075 | \$ | \$ 1,061,075 | \$ |

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| | | | | | |
|---|-----------|--------------|-----------|-----------------|-----------|
| Liabilities: | | | | | |
| Foreign currency exchange contract agreements | \$ | 1,317 | \$ | \$ 1,317 | \$ |
| Total | \$ | 1,317 | \$ | \$ 1,317 | \$ |

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

The Company's financial assets and liabilities 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. The fair values of the Company's cash equivalents, short-term 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. After completing these validation procedures, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of June 30, 2012 and December 31, 2011.

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 and fair value of the Company's fixed interest rate debt was \$400 million and \$413 million, respectively, at June 30, 2012. The carrying value and fair value of the Company's fixed interest rate debt was \$400 million and \$410 million, respectively, at December 31, 2011.

Hedge 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 and interest rates.

The Company records its hedge 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 selling and administrative expenses in the consolidated statements of operations. At June 30, 2012 and December 31, 2011, the Company held forward foreign exchange contracts with notional amounts totaling \$134 million and \$161 million, respectively.

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

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

| | June 30, 2012 | December 31, 2011 |
|---------------------------|---------------|-------------------|
| Other current assets | \$ 209 | \$ 81 |
| Other current liabilities | \$ 1,188 | \$ 1,317 |

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Realized (losses) gains on closed contracts | \$ (3,500) | \$ (922) | \$ 475 | \$ 1,970 |
| Unrealized (losses) gains on open contracts | (30) | (754) | 258 | 151 |
| Cumulative net pre-tax (losses) gains | \$ (3,530) | \$ (1,676) | \$ 733 | \$ 2,121 |

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 the six months ended June 30, 2012 and July 2, 2011, the Company repurchased 2.0 million and 1.7 million shares of the Company's outstanding common stock at a cost of \$165 million and \$148 million, respectively, under existing share repurchase programs. The Company has a total of \$771 million authorized for future purchases under the new and existing share repurchase programs. In addition, the Company repurchased \$6 million of common stock during both the six months ended June 30, 2012 and July 2, 2011 related to the vesting of restricted stock units.

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 supplies, 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 six months ended June 30, 2012 and July 2, 2011 (in thousands):

| | Balance at Beginning of Period | Accruals for Warranties | Settlements Made | Balance at End of Period |
|-----------------------------|--------------------------------------|----------------------------|---------------------|--------------------------------|
| Accrued warranty liability: | | | | |
| June 30, 2012 | \$ 13,258 | \$ 2,808 | \$ (3,813) | \$ 12,253 |
| July 2, 2011 | \$ 11,272 | \$ 4,835 | \$ (3,808) | \$ 12,299 |

Subsequent Events

The Company did not have any material subsequent events, except as described in Note 3.

Table of Contents**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2 Inventories**

Inventories are classified as follows (in thousands):

| | June 30, 2012 | December 31, 2011 |
|-----------------------|----------------------|--------------------------|
| Raw materials | \$ 72,406 | \$ 71,993 |
| Work in progress | 18,947 | 12,293 |
| Finished goods | 145,410 | 128,578 |
| Total inventories | \$ 236,763 | \$ 212,864 |

3 Acquisitions

In February 2012, the Company acquired the net assets of its Israeli sales and service distributor for \$6 million in cash. The Company has allocated \$2 million of the purchase price to intangible assets comprised of customer relationships. The Company is amortizing the customer relationships over ten years. The remaining purchase price of \$4 million has been accounted for as goodwill. The goodwill is deductible for tax purposes.

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. 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 \$4 million of the purchase price to intangible assets comprised of technology and \$1 million to customer relationships and other intangibles. The Company is amortizing the customer relationships and the acquired technology over ten years. The remaining purchase price of \$7 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

The acquisitions of the Israeli sales and service distributor and Baehr were accounted for under the accounting standard for business combinations and the results have been included in the Company's consolidated results from the respective acquisition dates. The principal factor that resulted in recognition of goodwill was that the purchase price for both acquisitions was based in part on cash flow projections assuming the integration of any acquired technology, distribution channels and products with our 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. In both acquisitions, 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 acquisitions are expected to add approximately \$10 million on a full-year basis to the Company's annual sales. The impact of these acquisitions on the Company's net income since the acquisition date for the six months ended June 30, 2012 was not significant.

The following table presents the fair values, as determined by the Company, of 100% of the assets and liabilities owned and recorded in connection with these acquisitions (in thousands):

| | |
|-------------------------------|--------|
| Accounts receivable | \$ 319 |
| Inventory | 2,887 |
| Property, plant and equipment | 1,254 |
| Other assets | 412 |
| Goodwill | 10,725 |
| Intangible assets | 7,451 |

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| | |
|--|-----------|
| Total assets acquired | 23,048 |
| Accrued expenses and other current liabilities | 2,438 |
| Debt | 732 |
| Deferred tax liability | 1,464 |
| Cash consideration paid | \$ 18,414 |

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

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 will integrate the Blue Reference technology into the current and future software product platforms to further differentiate and increase software offering revenues 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. Due to the timing of the closing, the Company has not completed the purchase accounting associated with this acquisition as of the date of this report.

4 Goodwill and Other Intangibles

The carrying amount of goodwill was \$307 million and \$297 million at June 30, 2012 and December 31, 2011, respectively. The Company's acquisitions increased goodwill by \$11 million (Note 3) for the six months ended June 30, 2012. The effect of currency translation decreased goodwill by \$1 million for the six months ended June 30, 2012.

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

| | June 30, 2012 | | | December 31, 2011 | | |
|-------------------------------|-----------------------|--------------------------|--------------------------------------|-----------------------|--------------------------|--------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Weighted-Average Amortization Period | Gross Carrying Amount | Accumulated Amortization | Weighted-Average Amortization Period |
| Purchased intangibles | \$ 144,112 | \$ 84,355 | 10 years | \$ 138,001 | \$ 80,023 | 10 years |
| Capitalized software | 259,489 | 139,559 | 5 years | 253,379 | 138,573 | 5 years |
| Licenses | 6,646 | 6,180 | 6 years | 6,597 | 6,039 | 6 years |
| Patents and other intangibles | 35,874 | 17,014 | 8 years | 33,698 | 15,048 | 8 years |
| Total | \$ 446,121 | \$ 247,108 | 7 years | \$ 431,675 | \$ 239,683 | 7 years |

During the six months ended June 30, 2012, the Company acquired \$7 million of purchased intangibles as a result of the acquisitions of Baehr and an Israeli distributor (Note 3). In addition, the effect of foreign currency translation decreased the gross carrying value of intangible assets and accumulated amortization for intangible assets by \$11 million and \$6 million, respectively, in the six months ended June 30, 2012. Amortization expense for intangible assets was \$6 million and \$8 million for the three months ended June 30, 2012 and July 2, 2011, respectively. Amortization expense for intangible assets was \$13 million and \$16 million for the six months ended June 30, 2012 and July 2, 2011, respectively. Amortization expense for intangible assets is estimated to be approximately \$41 million per year for the years 2013 through 2017. The estimated significant increase in amortization expense is due to amortization associated with capitalized software costs related to the launch of a new software product platform planned in the fourth quarter of 2012. The carrying value of the new software platform was approximately \$88 million as of June 30, 2012 and will be amortized over ten years.

5 Debt

In July 2011, Waters entered into a new credit agreement (the 2011 Credit Agreement) that provides for a \$700 million revolving facility and a \$300 million term loan facility. The revolving facility and term loan facility both mature on July 28, 2016 and require no scheduled prepayments before that date.

The interest rates applicable to the 2011 Credit Agreement are, at the Company's option, equal to either the base rate (which is the highest of (i) the prime rate, (ii) the federal funds rate plus 1/2%, or (iii) the one month LIBOR rate plus 1%) or the applicable 1, 2, 3, 6, 9 or 12 month LIBOR rate, in each case, plus an interest rate margin based upon the Company's leverage ratio, which can range between 0 to 20 basis points and between 85 basis points and 120 basis points, respectively. The facility fee on the 2011 Credit Agreement ranges between 15 basis points and 30 basis points. The 2011 Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1 and a leverage ratio test of not more than 3.25:1 for any period of four consecutive fiscal quarters, respectively. In addition, the 2011 Credit Agreement includes negative covenants, affirmative covenants, representations and warranties and events of default that are customary for

investment grade credit facilities. The

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

outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheets due to the fact that the Company utilizes the revolving line of credit to fund its working capital needs. It is the Company's intention to pay the outstanding revolving line of credit balance during the subsequent twelve months following the respective period end date.

As of both June 30, 2012 and December 31, 2011, 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 the senior unsecured notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. These notes require that the Company comply with an interest coverage ratio test of not less than 3.50:1 and a leverage ratio test of not more than 3.50:1 for any period of four consecutive fiscal quarters, respectively. In addition, these notes include customary negative covenants, affirmative covenants, representations and warranties and events of default.

As of June 30, 2012, the Company was in compliance with all debt covenants.

The Company had the following outstanding debt at June 30, 2012 and December 31, 2011 (in thousands):

| | | June 30, 2012 | December 31, 2011 |
|-------------------------------------|-----------------------------------|----------------------|--------------------------|
| Foreign subsidiary lines of credit | | \$ 11,354 | \$ 10,832 |
| 2011 credit agreement | | 390,000 | 280,000 |
| Total notes payable and debt | | 401,354 | 290,832 |
| 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 |
| 2011 credit agreement | | 300,000 | 300,000 |
| Total long-term debt | | 700,000 | 700,000 |
| Total debt | | \$ 1,101,354 | \$ 990,832 |

As of June 30, 2012 and December 31, 2011, the Company had a total amount available to borrow of \$309 million and \$419 million, respectively, after outstanding letters of credit, under the 2011 Credit Agreement. The weighted-average interest rates applicable to the senior unsecured notes and 2011 Credit Agreement borrowings were 2.17% and 2.33% at June 30, 2012 and December 31, 2011, respectively.

The Company and its foreign subsidiaries also had available short-term lines of credit totaling \$110 million and \$109 million at June 30, 2012 and December 31, 2011, respectively, for the purpose of short-term borrowing and issuance of commercial guarantees. At June 30, 2012 and December 31, 2011, the weighted-average interest rates applicable to these short-term borrowings were 1.94% and 2.02%, respectively.

6 Income Taxes

The Company accounts for its uncertain tax return reporting positions in accordance with the accounting standard for income taxes, which requires financial statement reporting of the expected future tax consequences of those tax reporting positions on the presumption that all

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concerned tax authorities possess full knowledge of those tax reporting positions, as well as all of the pertinent facts and circumstances, but prohibits any discounting of those unrecognized tax benefits for the time value of money.

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

The following is a summary of the activity in the Company's unrecognized tax benefits for the six months ended June 30, 2012 and July 2, 2011 (in thousands):

| | June 30, 2012 | July 2, 2011 |
|--|----------------------|---------------------|
| Balance at the beginning of the period | \$ 73,199 | \$ 71,523 |
| Change in uncertain tax benefits | (1,344) | 1,846 |
| Balance at the end of the period | \$ 71,855 | \$ 73,369 |

The Company's uncertain tax positions are taken with respect to income tax return reporting periods beginning after December 31, 1999, which are the periods that generally remain open to income tax audit examination by the 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. As of June 30, 2012, the Company does not expect to record any material changes in the measurement of any unrecognized tax benefits, related net interest and penalties or deferred tax assets and liabilities due to the settlement of various ongoing tax audit examinations and the Company has not yet received any indication that a settlement is expected within the next twelve months. As of June 30, 2012, the Company expects to record a reduction in the measurement of unrecognized tax benefits and related net interest and penalties of approximately \$5 million due to the lapsing of statutes of limitations on potential tax assessments within the next twelve months.

The Company's effective tax rates for the three months ended June 30, 2012 and July 2, 2011 were 14.5% and 14.0%, respectively. The Company's effective tax rates for the six months ended June 30, 2012 and July 2, 2011 were 14.8% and 15.0%, respectively. Included in the income tax provision for the prior year is \$2 million of tax benefit related to the reversal of reserves for interest related to an audit settlement in the United Kingdom. This tax benefit decreased the Company's effective tax rate by 1.4 percentage points and 0.7 percentage points in the prior year quarter and year-to-date, respectively. The remaining differences between the effective tax rates for the current year as compared to the prior year were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

7 Litigation

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes the outcome of these matters will not have a material impact on the Company's financial position. In June 2012, a \$3 million payment was made to settle a complaint that was filed against the Company alleging patent infringement.

8 Stock-Based Compensation

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

The Company accounts for stock-based compensation costs in accordance with the accounting standard for stock-based compensation, which requires 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 standard requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. In addition, if the Company employs different assumptions in the application of this standard, the compensation expense that the Company records in the future periods may differ significantly from what the Company has recorded in the current period.

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

The consolidated statements of operations for the three and six months ended June 30, 2012 and July 2, 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):

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|--------------|------------------|--------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Cost of sales | \$ 640 | \$ 629 | \$ 1,294 | \$ 1,325 |
| Selling and administrative expenses | 5,668 | 5,272 | 11,463 | 10,738 |
| Research and development expenses | 806 | 847 | 1,624 | 1,700 |
| Total stock-based compensation | \$ 7,114 | \$ 6,748 | \$ 14,381 | \$ 13,763 |

As of both June 30, 2012 and December 31, 2011, the Company had capitalized stock-based compensation costs of less than \$1 million in inventory in the consolidated balance sheets. As of June 30, 2012 and December 31, 2011, the Company had capitalized stock-based compensation costs of \$2 million and \$3 million, respectively, in capitalized software in the consolidated balance sheets.

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 the six months ended June 30, 2012 and July 2, 2011 are as follows:

| Options Issued and Significant Assumptions Used to Estimate Option Fair Values | June 30, 2012 | July 2, 2011 |
|--|---------------|--------------|
| Options issued in thousands | 32 | 32 |
| Risk-free interest rate | 1.0% | 2.1% |
| Expected life in years | 6 | 6 |
| Expected volatility | 0.380 | 0.290 |
| Expected dividends | | |

| Weighted-Average Exercise Price and Fair Value of Options on the Date of Grant | June 30, 2012 | July 2, 2011 |
|--|---------------|--------------|
| Exercise price | \$ 75.94 | \$ 78.10 |
| Fair value | \$ 28.68 | \$ 25.25 |

The following table summarizes stock option activity for the plans for the six months ended June 30, 2012 (in thousands, except per share data):

| | Number of Shares | Price per Share | Weighted-Average Exercise Price |
|----------------------------------|------------------|--------------------|---------------------------------|
| Outstanding at December 31, 2011 | 4,809 | \$21.39 to \$79.15 | \$ 56.71 |

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| | | | | |
|------------------------------|-------|--------------------|----|-------|
| Granted | 32 | \$75.94 | \$ | 75.94 |
| Exercised | (415) | \$21.39 to \$79.05 | \$ | 39.24 |
| Canceled | (68) | \$41.20 to \$77.94 | \$ | 64.71 |
| Outstanding at June 30, 2012 | 4,358 | \$21.39 to \$79.15 | \$ | 58.39 |

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

During the six months ended June 30, 2012, the Company granted twelve thousand shares of restricted stock. The fair value of these awards on the grant date was \$75.94 per share. The restrictions on these shares lapse at the end of a three-year period.

Restricted Stock Units

The following table summarizes the unvested restricted stock unit award activity for the six months ended June 30, 2012 (in thousands, except for per share amounts):

| | Shares | Weighted-Average Price |
|-------------------------------|--------|---------------------------|
| Unvested at December 31, 2011 | 654 | \$ 57.94 |
| Granted | 158 | \$ 87.92 |
| Vested | (224) | \$ 55.16 |
| Forfeited | (8) | \$ 57.26 |
| Unvested at June 30, 2012 | 580 | \$ 67.19 |

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

9 Earnings Per Share

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

| | Three Months Ended June 30, 2012 | | |
|--|----------------------------------|--|---------------------|
| | Net Income (Numerator) | Weighted- Average Shares (Denominator) | Per Share Amount |
| Net income per basic common share | \$ 97,724 | 88,317 | \$ 1.11 |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities | | 1,064 | |
| Net income per diluted common share | \$ 97,724 | 89,381 | \$ 1.09 |

| | Three Months Ended July 2, 2011 | | |
|--|---------------------------------|--|---------------------|
| | Net Income (Numerator) | Weighted- Average Shares (Denominator) | Per Share Amount |
| Net income per basic common share | \$ 100,075 | 91,662 | \$ 1.09 |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities | | 1,609 | |
| Net income per diluted common share | \$ 100,075 | 93,271 | \$ 1.07 |

| | Six Months Ended June 30, 2012 | | |
|--|---------------------------------------|---|-----------------------------|
| | Net Income (Numerator) | Weighted- Average Shares (Denominator) | Per Share Amount |
| Net income per basic common share | \$ 186,390 | 88,650 | \$ 2.10 |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities | | 1,173 | |
| Net income per diluted common share | \$ 186,390 | 89,823 | \$ 2.08 |

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

| | Six Months Ended July 2, 2011 | | |
|--|-------------------------------|--|---------------------|
| | Net Income (Numerator) | Weighted- Average Shares (Denominator) | Per Share Amount |
| Net income per basic common share | \$ 194,564 | 91,649 | \$ 2.12 |
| Effect of dilutive stock option, restricted stock and restricted stock unit securities | | 1,653 | |
| Net income per diluted common share | \$ 194,564 | 93,302 | \$ 2.09 |

For both the three and six months ended June 30, 2012, the Company had 1.3 million stock options that were antidilutive due to having higher exercise prices than the Company's average stock price during the period. For both the three and six months ended July 2, 2011, the Company had 0.7 million stock options that were antidilutive. These securities were not included in the computation of diluted EPS. The effect of dilutive securities was calculated using the treasury stock method.

10 Retirement Plans

The Company sponsors various retirement plans. The summary of the components of net periodic pension costs for the plans for the three and six months ended June 30, 2012 and July 2, 2011 is as follows (in thousands):

| | Three Months Ended | | | | | |
|--------------------------------|--------------------------|---|------------------------------|--------------------------|--|------------------------------|
| | U.S. Pension Plans | June 30, 2012 U.S. Retiree Healthcare Plan | Non-U.S. Pension Plans | U.S. Pension Plans | July 2, 2011 U.S. Retiree Healthcare Plan | Non-U.S. Pension Plans |
| Service cost | \$ 2 | \$ 199 | \$ 973 | \$ | \$ 134 | \$ 963 |
| Interest cost | 1,359 | 82 | 457 | 1,554 | 94 | 525 |
| Expected return on plan assets | (1,994) | (65) | (189) | (1,880) | (69) | (224) |
| Net amortization: | | | | | | |
| Prior service credit | | (13) | (234) | | (13) | |
| Net actuarial loss | 923 | | 255 | 433 | | 89 |
| Net periodic pension cost | \$ 290 | \$ 203 | \$ 1,262 | \$ 107 | \$ 146 | \$ 1,353 |

| | Six Months Ended | | | | | |
|--------------------------------|--------------------------|---|------------------------------|--------------------------|--|------------------------------|
| | U.S. Pension Plans | June 30, 2012 U.S. Retiree Healthcare Plan | Non-U.S. Pension Plans | U.S. Pension Plans | July 2, 2011 U.S. Retiree Healthcare Plan | Non-U.S. Pension Plans |
| Service cost | \$ 4 | \$ 363 | \$ 1,894 | \$ | \$ 268 | \$ 1,926 |
| Interest cost | 2,903 | 181 | 998 | 3,108 | 188 | 1,051 |
| Expected return on plan assets | (3,809) | (131) | (418) | (3,760) | (138) | (447) |
| Net amortization: | | | | | | |
| Prior service credit | | (27) | (137) | | (26) | |
| Net actuarial loss | 1,504 | | 185 | 866 | | 177 |
| Net periodic pension cost | \$ 602 | \$ 386 | \$ 2,522 | \$ 214 | \$ 292 | \$ 2,707 |

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Included in the net periodic pension cost for the three and six months ended June 30, 2012 and July 2, 2011 above are certain immaterial Non-U.S. Pension plans that were previously omitted from this disclosure. For both the three and six months ended June 30, 2012, the Company contributed \$1 million to the Company's U.S. pension plans. During fiscal year 2012, the Company expects to contribute a total of approximately \$7 million to \$9 million to the Company's defined benefit plans.

Table of Contents**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11 Business Segment Information**

The Company's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision makers. 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 three and six months ended June 30, 2012 and July 2, 2011 (in thousands):

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2012 | July 2, 2011 | June 30, 2012 | July 2, 2011 |
| Product net sales: | | | | |
| Waters instrument systems | \$ 203,901 | \$ 206,421 | \$ 380,568 | \$ 403,932 |
| Chemistry | 71,960 | 74,299 | 146,900 | 148,021 |
| TA instrument systems | 37,994 | 35,430 | 72,894 | 67,533 |
| Total product sales | 313,855 | 316,150 | 600,362 | 619,486 |
| Service net sales: | | | | |
| Waters service | 124,630 | 119,871 | 246,274 | 233,278 |
| TA service | 12,980 | 11,606 | 25,287 | 22,466 |
| Total service sales | 137,610 | 131,477 | 271,561 | 255,744 |
| Total net sales | \$ 451,465 | \$ 447,627 | \$ 871,923 | \$ 875,230 |

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

In June 2011, a new accounting standard was issued relating to the presentation of comprehensive income. The adoption of this standard in the six months ended June 30, 2012 did not have a material effect on the Company's financial position, results of operations or cash flows.

In September 2011, amended accounting guidance was issued for goodwill in order to simplify how companies test goodwill for impairment. The adoption of this standard in the six months ended June 30, 2012 did not have a material effect on the Company's financial position, results of operations or cash flows.

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

The Company has two operating segments: the Waters Division and the TA Division (T&A). 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, food, 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, polymers and viscous liquids in consumer goods and healthcare products.

The Company's operating results are as follows for the three and six months ended June 30, 2012 and July 2, 2011 (in thousands):

| | Quarterly Results Three Months Ended | | | Year-To-Date Results Six Months Ended | | |
|--|---|-----------------|-------------|--|-----------------|-------------|
| | June 30, 2012 | July 2, 2011 | % change | June 30, 2012 | July 2, 2011 | % change |
| Product sales | \$ 313,855 | \$ 316,150 | (1%) | \$ 600,362 | \$ 619,486 | (3%) |
| Service sales | 137,610 | 131,477 | 5% | 271,561 | 255,744 | 6% |
| Total net sales | 451,465 | 447,627 | 1% | 871,923 | 875,230 | |
| Total cost of sales | 179,259 | 176,103 | 2% | 346,549 | 345,932 | |
| Gross profit | 272,206 | 271,524 | | 525,374 | 529,298 | (1%) |
| Gross profit as a % of sales | 60.3% | 60.7% | | 60.3% | 60.5% | |
| Selling and administrative expenses | 122,682 | 125,439 | (2%) | 239,801 | 242,563 | (1%) |
| Research and development expenses | 23,943 | 23,014 | 4% | 47,290 | 45,268 | 4% |
| Purchased intangibles amortization | 2,458 | 2,504 | (2%) | 4,943 | 5,005 | (1%) |
| Litigation provision | 3,000 | | | 3,000 | | |
| Operating income | 120,123 | 120,567 | | 230,340 | 236,462 | (3%) |
| Operating income as a % of sales | 26.6% | 26.9% | | 26.4% | 27.0% | |
| Interest expense, net | (5,847) | (4,239) | 38% | (11,569) | (7,609) | 52% |
| Income from operations before income taxes | 114,276 | 116,328 | (2%) | 218,771 | 228,853 | (4%) |
| Provision for income taxes | 16,552 | 16,253 | 2% | 32,381 | 34,289 | (6%) |
| Net income | \$ 97,724 | \$ 100,075 | (2%) | \$ 186,390 | \$ 194,564 | (4%) |
| Net income per diluted common share | \$ 1.09 | \$ 1.07 | 2% | \$ 2.08 | \$ 2.09 | |

Sales for the quarter increased 1%, with the effect of foreign currency translation negatively impacting the quarter's sales by 3% across all products and services. The increase in the quarter's sales was primarily attributable to a 2% increase in combined sales of chemistry consumables and service. Service sales grew 5%, while chemistry sales declined 3%. Excluding the effect of foreign currency translation, chemistry sales slowed this quarter primarily due to weaker sales for HPLC columns, offset by stronger sales of UPLC columns. Instrument system sales were flat in the quarter primarily due to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. Sales in Europe and India are expected to be negatively impacted in future quarters as compared to the prior year by the further weakening of the Euro and Indian rupee based on current exchange rates.

Geographically, sales decreased in the quarter by 9% in Europe, while sales increased 7% in the U.S., 4% in Asia (including Japan) and 2% in the rest of the world. The decline in Europe's sales was due to a 9% negative effect of foreign currency translation. U.S. sales benefited from increased sales to pharmaceutical and governmental and

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academic customers. Asia sales grew from a continued double-digit sales growth rate in China, particularly in the governmental, industrial and chemical analysis markets, offset by a continued decline in capital expenditures in India.

Sales to pharmaceutical customers in the quarter increased 3%. Combined global sales to governmental and academic customers were flat and combined sales to industrial chemical, food safety and environmental customers decreased 3%.

Sales for the year were flat compared with the prior year, 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 was attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. The effect of foreign currency translation negatively impacted year-to-date sales by 2%.

Sales for the year increased 5% in the U.S. and 3% in Asia, while sales decreased 6% in Europe and 10% in the rest of the world. U.S. sales were higher across all markets. Asia continued to experience a double-digit sales growth rate in China, particularly in the governmental, industrial and chemical analysis markets. The growth in China was offset by a decline in capital expenditures by customers in India, mostly for Alliance instrument systems, which resulted from a weaker Indian rupee. The decline in Europe's sales was due to a 6% negative effect of foreign currency translation and the decline in the rest of the world's sales was due to lower demand from pharmaceutical, governmental and academic customers, particularly sales of chemistry consumables.

Combined sales to industrial chemical, food safety and environmental customers increased 17% compared to the prior year. Sales to pharmaceutical customers were flat and combined global sales to governmental and academic customers were 3% lower as a result of a decline in instrument system sales.

Selling and administrative expenses decreased 2% and 1% for the quarter and year, respectively, primarily due to lower incentive compensation expense related to lower full-year performance expectations and the effect of foreign currency translation. This favorability was partially offset by increases in headcount and merit. Headcount, including the impact of current year acquisitions, increased modestly in the first half of this year. The effect of foreign currency translation is expected to lower selling and administrative expenses in the second half of this year as compared to the prior year, based on current exchange rates. In addition, a \$3 million litigation payment was made in the quarter to settle a complaint that was filed against the Company alleging patent infringement.

The increase in net income per diluted share in the quarter was principally attributable to lower shares outstanding offset by the negative effect of foreign currency translation. The decrease in net income per diluted share for the year was principally attributable to the negative effect of foreign currency translation being offset by the benefit from lower shares outstanding. The effect of foreign currency translation is expected to have a continual negative effect on net income in the second half of this year as compared to the prior year, based on current exchange rates.

Net cash provided by operating activities for the year was \$216 million in 2012 and \$220 million in 2011. The \$4 million decrease was primarily a result of lower net income in 2012 offset by an improvement in cash collections from customers and the timing of payments to vendors.

Within cash flows used in investing activities, year-to-date capital expenditures related to property, plant, equipment and software capitalization were \$47 million and \$35 million in 2012 and 2011, respectively. The current year's capital expenditures include \$13 million of construction costs and the acquisition of a building in the United Kingdom associated with a multi-year project to consolidate certain existing primary MS research, manufacturing and distribution locations. In the first half of 2012, the Company acquired the net assets of its Israeli sales and service distributor for \$6 million in cash and 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. These acquisitions are expected to add approximately \$10 million to annual sales and be slightly accretive to earnings in 2012.

In July 2012, the Company acquired all of the outstanding capital stock of Blue Reference, Inc., a developer and distributor of software products used for the real-time mining and analysis of multiple-application scientific databases, for \$14 million in cash.

Within cash flows used in financing activities, the Company received \$19 million and \$43 million of proceeds from stock plans in 2012 and 2011, respectively. Fluctuations in these amounts were primarily attributable to changes in

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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. The Company repurchased \$165 million and \$148 million of the Company's outstanding common stock in 2012 and 2011, respectively, under the existing stock repurchase programs.

Results of Operations*Net Sales*

Product sales for the quarter decreased 1% while year-to-date product sales decreased 3%. TA Division's product sales grew 7% and 8% for the quarter and the year, respectively, while the Waters Division product sales declined 2% and 4%, respectively. The decreases in the Waters Division product sales for both the quarter and the year were attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. Foreign currency translation decreased product sales by 4% for both the quarter and the year.

Service sales increased 5% and 6% for the quarter and year, respectively, with foreign currency translation decreasing service sales by 4% and 3%, respectively. The increases in service sales were primarily attributable to increased sales of service plans and billings to a higher installed base of customers.

Waters Division Sales

Waters Division sales were flat for the quarter and decreased 1% year-to-date. The effect of foreign currency translation impacted the Waters Division across all product lines, resulting in a decrease in total sales of 4% and 3% for the quarter and year, respectively.

Waters instrument system sales (LC and MS) decreased 1% and 6% for the quarter and year, respectively. The declines in instrument systems sales were primarily attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. Chemistry consumables sales decreased 3% and 1% in the quarter and year, respectively. These declines in chemistry consumables sales, excluding the effects of foreign currency translation, were primarily due to lower demand for HPLC columns, offset by stronger demand for UPLC columns. Waters Division service sales increased 4% and 6% in the quarter and year, respectively, due to increased sales of service plans and billings to a higher installed base of customers. Waters Division sales by product line for the current and prior year were approximately 51% for instrument systems, 18% for chemistry consumables and 31% for service.

Waters Division sales in the quarter decreased 10% in Europe, while sales increased 7% in the U.S., 2% in Asia and 8% in the rest of the world. Waters Division sales for the year increased 4% in the U.S. and 1% in Asia, while sales decreased 7% in both Europe and the rest of the world. The decline in Europe's sales was due to an 8% and 6% negative effect of foreign currency translation in the quarter and year, respectively. U.S. sales were higher across all markets and Asia continued to experience double-digit sales growth rate in China. The decline in sales to the rest of the world is primarily due to lower demand from governmental and academic customers.

TA Division Net Sales

TA's sales were 8% and 9% higher in the quarter and year, respectively. Recent acquisitions added 3% to TA's quarter and year-to-date sales. Instrument system sales increased 7% in the quarter and 8% year-to-date. Instrument system sales represented approximately 75% of TA's sales in both the current and prior year. The increases were 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 12% and 13% in the quarter and year, respectively, primarily due to increased sales of service plans and billings to a higher installed base of customers. Geographically, TA's sales for both the quarter and year increased in Asia, the U.S. and Europe, and declined in the rest of the world. The effect of foreign currency translation decreased Europe's sales by 12% and 7% in the quarter and year, respectively.

Gross Profit

Gross profit was flat for the quarter and decreased 1% year-to-date. Comparatively, gross profit as a percentage of sales decreased slightly in the quarter and year-to-date. There have been no material changes to product mix, the impact of foreign currency translation or cost reductions effecting gross margin percentages in the quarter and year-to-date.

Gross profit as a percentage of sales is affected by many factors, including, but not limited to, product mix and product costs of instrument systems and associated software platforms. Beginning in late 2012, the Company

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expects to introduce several new products and software platforms whose cost and amortization of capitalized software development costs will affect the Company's product mix and may lower associated gross profit margins slightly as a percentage of sales. See Note 4 in the Notes to the Consolidated Financial Statements for estimated future amortization expense.

Selling and Administrative Expenses

Selling and administrative expenses decreased 2% and 1% for the quarter and year, respectively. The decrease was driven by lower sales commission and incentive bonus costs, offset somewhat by costs associated with headcount additions and higher merit and fringe benefit costs. As a percentage of net sales, selling and administrative expenses were 27.2% for the current year quarter, 27.5% for the current year-to-date, 28.0% for the prior year quarter and 27.7% for the prior year-to-date.

Litigation Provision

The Company made a \$3 million litigation payment in the quarter to settle a complaint that was filed against the Company alleging patent infringement.

Research and Development Expenses

Research and development expenses increased 4% for both the quarter and year, respectively. The increases in research and development expenses were primarily due to development costs incurred on new products.

Provision for Income Taxes

The four principal jurisdictions the Company manufactures in are the U.S., Ireland, the United Kingdom and Singapore, where the marginal effective tax rates are approximately 37.5%, 12.5%, 25.3% and 0%, respectively. The Company has a contractual tax rate in Singapore of 0% through the end of 2016, while 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 rate for the quarter increased to 14.5% from 14.0%. The Company's effective tax rate for the year decreased to 14.8% from 15.0%. Included in the income tax provision for the prior year is \$2 million of tax benefit related to the reversal of reserves for interest related to an audit settlement in the United Kingdom. This tax benefit decreased the Company's effective tax rate by 1.4 percentage points and 0.7 percentage points in the prior year quarter and year-to-date, respectively. The remaining differences between the effective tax rates for the current year as compared to the prior year 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):*

| | Six Months Ended | |
|--|-------------------------|---------------------|
| | June 30, 2012 | July 2, 2011 |
| Net income | \$ 186,390 | \$ 194,564 |
| Depreciation and amortization | 30,603 | 33,445 |
| Stock-based compensation | 14,381 | 13,763 |
| Deferred income taxes | (7,147) | (3,692) |
| Change in accounts receivable | 5,929 | 7,191 |
| Change in inventories | (29,327) | (36,051) |
| Change in accounts payable and other current liabilities | (18,736) | (32,652) |
| Change in deferred revenue and customer advances | 25,067 | 31,350 |

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| | | |
|--|-------------|-----------|
| Other changes | 9,114 | 12,061 |
| Net cash provided by operating activities | 216,274 | 219,979 |
| Net cash used in investing activities | (190,681) | (174,114) |
| Net cash used in financing activities | (36,537) | (24,727) |
| Effect of exchange rate changes on cash and cash equivalents | (3,617) | 15,278 |
| (Decrease) increase in cash and cash equivalents | \$ (14,561) | \$ 36,416 |

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Cash Flow from Operating Activities

Net cash provided by operating activities was \$216 million and \$220 million in the six months ended June 30, 2012 and July 2, 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 decrease in net income:

The change in accounts receivable in 2012 compared to 2011 was primarily attributable to timing of shipments and payments made by customers and lower sales volumes in 2012 as compared to 2011. Days-sales-outstanding (DSO) decreased to 72 days at June 30, 2012 from 74 days at July 2, 2011. The effect of foreign currency favorably impacted DSO s by 3 days in 2012 as compared to 2011.

A lower increase in inventory levels in 2012 due to lower future sales volumes expected.

2012 and 2011 change in accounts payable and other current liabilities was a result of timing of payments to vendors, lower inventory levels and payments under the management incentive plans, offset somewhat by an increase in income taxes payable.

Net cash provided from deferred revenue and customer advances in both 2012 and 2011 was a result of the 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 \$191 million and \$174 million in 2012 and 2011, respectively. Additions to fixed assets and capitalized software were \$47 million in 2012 and \$35 million in 2011. The current quarter s capital expenditures include \$13 million of construction costs and the acquisition of a building in the United Kingdom associated with a multi-year project to consolidate certain existing primary MS research, manufacturing and distribution locations. During 2012 and 2011, the Company purchased \$942 million and \$830 million of short-term investments while \$816 million and \$691 million of short-term investments matured, respectively. Business acquisitions, net of cash acquired, were \$18 million during 2012. There were no business acquisitions in 2011.

Cash Used in Financing Activities

During 2012 and 2011, the Company s total debt borrowings increased by \$110 million and \$70 million, respectively. As of June 30, 2012, the Company had a total of \$1,101 million in outstanding debt, which consisted of \$400 million in outstanding notes, \$300 million borrowed under the term loan facility under the credit agreement dated July 2011 (the 2011 Credit Agreement), \$390 million borrowed under revolving credit facilities under the 2011 Credit Agreement and \$11 million borrowed under various other short-term lines of credit. The outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheets due to the fact that the Company utilizes the revolving line of credit to fund its working capital needs. It is the Company s intention to pay the outstanding revolving line of credit balance during the subsequent twelve months following the respective period end date; however, there can be no assurance that it will be able to do so. As of June 30, 2012, the Company had a total amount available to borrow under the 2011 Credit Agreement of \$309 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 2012 and 2011, the Company repurchased a total of 2.0 million and 1.7 million shares at a cost of \$165 million and \$148 million, respectively, under the existing share repurchase programs. As of June 30, 2012, the Company had a total of \$771 million authorized for future repurchases under the new and existing share repurchase programs. In addition, the Company repurchased \$6 million of common stock during both 2012 and 2011 related to the vesting of restricted stock units.

The Company received \$19 million and \$43 million of proceeds from the exercise of stock options and the purchase of shares pursuant to the Company s employee stock purchase plan in 2012 and 2011, respectively.

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The Company had cash, cash equivalents and short-term investments of \$1.4 billion as of June 30, 2012. The majority of the Company's cash, cash equivalents and short-term investments are generated from foreign operations, with approximately \$1.4 billion (mostly denominated in U.S. dollars) held in accounts of foreign subsidiaries at June 30, 2012. Due to the fact that most of the Company's cash, cash equivalents and short-term investments are held

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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 and interest, finance potential U.S. acquisitions and continue to repurchase shares under 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 committed credit facilities will be sufficient to service debt and fund working capital and capital spending requirements, authorized share repurchase amounts, potential acquisitions and any adverse final determination of ongoing litigation and tax audit examinations for at least the next twelve months. In addition, there have been no recent significant changes to the Company's financial position, nor are there any anticipated changes in the next twelve months, to warrant a material adjustment related to indefinitely reinvested foreign earnings.

Contractual Obligations and Commercial Commitments

A summary of the Company's contractual obligations and commercial commitments is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission (SEC) on February 24, 2012. The Company reviewed its contractual obligations and commercial commitments as of June 30, 2012 and determined that there were no material changes from the information set forth in the Annual Report on Form 10-K.

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

For the six months ended June 30, 2012, the Company contributed \$1 million to the Company's U.S. pension plans. During fiscal year 2012, the Company expects to contribute a total of approximately \$7 million to \$9 million to the Company's defined benefit plans.

The Company is in the process of consolidating its facilities in the United Kingdom into one new facility, which is expected to cost approximately \$70 million to construct. The Company believes it can fund the construction of this facility with cash flow from operations and its borrowing capacity from committed credit facilities.

The Company has not paid any dividends and does not plan to pay any dividends in the foreseeable future.

Critical Accounting Policies and Estimates

In the Company's Annual Report on Form 10-K for the year ended December 31, 2011, the Company's most critical accounting policies and estimates upon which its financial status depends were identified as those relating to revenue recognition, loss provisions on accounts receivable and inventory, valuation of long-lived assets, intangible assets and goodwill, warranty, income taxes, pension and other postretirement benefit obligations, litigation and stock-based compensation. The Company reviewed its policies and determined that those policies remain the Company's most critical accounting policies for the six months ended June 30, 2012. The Company did not make any changes in those policies during the six months ended June 30, 2012.

New Accounting Pronouncements

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

Special Note Regarding Forward-Looking Statements

Certain of the statements in this Quarterly Report on Form 10-Q, including the information incorporated by reference herein, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), with respect to future results and events, including statements regarding, among other items, anticipated trends or growth in the Company's business, including, but not limited to, the growth rate of sales; new product launches; geographic sales mix of business; anticipated expenses, including interest expense, capitalized software costs,

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effective tax rates, and amortization expense; the impact of foreign currency translation; any adverse impact of the Company's various ongoing tax audit examinations and litigation matters; the impact of the loss of intellectual property protection; the effect of new accounting pronouncements; use of the Company's debt proceeds; 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 (including facility expansion and consolidation projects), service debt, repay outstanding lines of credit, make authorized share repurchases and potential acquisitions; recording any impairment charges; the Company's contributions to defined benefit plans; the Company's expectations regarding the payment of dividends; the impact of recent acquisitions on sales and earnings.

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

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; the effect of mergers and acquisitions on customer demand; and 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 financial operating results and condition.

Increased regulatory burdens as the Company's business evolves, especially with respect to the Food and Drug Administration and Environmental Protection Agency, among others and 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 discussed in Part II, Item 1A of this Quarterly Report on Form 10-Q and under the heading "Risk Factors" under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements, whether because of these factors or for other reasons. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this report. The Company does not assume any obligation to update any forward-looking statements.

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

There have been no material changes in the Company's market risk during the six months ended June 30, 2012. For information regarding the Company's market risk, refer to Item 7A of Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012.

Item 4: *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer (principal executive and principal financial officer), with the participation of management, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012 (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.

Changes in Internal Controls Over Financial Reporting

There have been no changes 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 June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II: *Other Information*

Item 1: *Legal Proceedings*

There have been no material changes in the Company's legal proceedings during the six months ended June 30, 2012 as described in Item 3 of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012, with the exception of a \$3 million payment made in the quarter to settle a complaint that was filed against the Company alleging patent infringement.

Item 1A: *Risk Factors*

Information regarding risk factors of the Company is set forth under the heading "Risk Factors" under Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012. The Company reviewed its risk factors as of June 30, 2012 and determined that there were no material changes from the ones set forth in the Form 10-K. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and operating results.

Item 2: *Unregistered Sales of Equity Securities and Use of Proceeds*

Purchases of Equity Securities by the Issuer

The following table provides information about purchases by the Company during the three months ended June 30, 2012 of equity securities registered by the Company under the Exchange Act (in thousands, except per share data):

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| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2) | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|---|---|--|---|
| April 1 to April 28, 2012 | 110 | \$ 83.92 | 110 | \$ 114,788 |
| April 29 to May 26, 2012 | 650 | \$ 83.82 | 650 | \$ 810,305 |
| May 27 to June 30, 2012 | 500 | \$ 79.22 | 500 | \$ 770,695 |
| Total | 1,260 | \$ 82.00 | 1,260 | \$ 770,695 |

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- (1) The Company purchased 1.3 million shares of its outstanding common stock in the quarter ended June 30, 2012 in open market transactions pursuant to a repurchase program that was announced in February 2011 (the 2011 Program). The 2011 Program authorized the repurchase of up to \$500 million of common stock in open market transactions over a two-year period.
- (2) 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.

Item 6: Exhibits

| Exhibit Number | Description of Document |
|-----------------------|---|
| 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 ** | Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 ** | Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 ** | The following materials from Waters Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements. |

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

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SIGNATURE

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

WATERS CORPORATION

/s/ WILLIAM J. CURRY
William J. Curry
Vice President, Corporate Controller

*and Principal Accounting Officer
(duly authorized and chief accounting officer)*

Date: August 3, 2012