



# **FORM 10-K405**

**WATERS CORP /DE/ - WAT**

**Filed: March 31, 1997 (period: December 31, 1996)**

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

( X ) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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 the charter)

DELAWARE  
-----

13-3668640  
-----

(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

34 MAPLE STREET  
MILFORD, MASSACHUSETTS 01757  
-----

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

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

Securities of the Registrant registered pursuant to Section 12(b) of the Act:

None

Securities of the Registrant registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.01 per share

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 and 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 ( X ) No ( )

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

The aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant as of March 24, 1997: \$756,197,606

Number of shares outstanding of the Registrant's common stock as of March 24, 1997: 28,929,595

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1996 Annual Report to Stockholders are incorporated by reference in Parts I and II.

Portions of the proxy statement for the 1997 Annual Meeting of Stockholders are incorporated by reference in Part III.

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WATERS CORPORATION AND SUBSIDIARIES  
ANNUAL REPORT ON FORM 10K  
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PART I

Item 1: BUSINESS

The Company

Waters Corporation ("Waters" or the "Company") is a holding company which owns only and all of the outstanding common stock of Waters Technologies Corporation. Waters Corporation was established to acquire ("Acquisition") the predecessor Waters Chromatography Division ("Predecessor") of Millipore Corporation ("Millipore") on August 18, 1994. Waters Corporation became a publicly traded company with its initial public offering ("IPO") in November 1995.

Effective on December 31, 1994, the Board of Directors approved a plan to divest operations of the Company's Extrel FTMS and Extrel Pittsburgh business units. The description of Waters' business contained herein treats both business units as discontinued operations, and excludes these units from this description. For additional information, please see "Management's Discussion and Analysis of Financial Condition and the Results of Operations," and the Financial Statements and the accompanying notes found in the 1996 Annual Report which is incorporated herein by reference.

Business Segments

The Company operates in only one business segment, but operates in several geographic segments. See Footnote 18 to the Financial Statements for detailed results by geographic segment found in the 1996 Annual Report which is incorporated herein by reference.

Business

Waters is the world's largest manufacturer, distributor and provider of high performance liquid chromatography ("HPLC") instruments, columns and other consumables, and related service. The Company has the largest HPLC market share in the United States, Europe and non-Japan Asia and has a leading position in Japan. HPLC, the largest product segment of the analytical instrument market, 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. With its acquisition of TA Instruments, Inc. ("TAI") in May 1996, Waters is also the world's leader in thermal analysis, a prevalent and complementary technique used in the analysis of polymers.

Developed in the 1950's, HPLC today is the standard technique used to identify and analyze the constituent components of a variety of chemicals and materials. HPLC's unique performance capabilities enable it to separate and identify 80% of all known chemicals and materials. As a result, HPLC is used to analyze substances in a wide variety of industries for research and development purposes, quality control and process engineering applications. Within the pharmaceutical and life science industries, its most important end-use market, HPLC is used extensively to identify new drugs, to develop manufacturing methods, and to assure the potency and purity of new pharmaceuticals. HPLC is used to identify food content for nutritional labeling in the food and beverages industry and to test water and air purity within the environmental testing industry. HPLC is also used in a variety of applications in other industries, such as chemical and consumer products, as well as by universities and government agencies. In many instances, Food and Drug Administration ("FDA") and Environmental Protection Agency ("EPA") regulations, and those of their international counterparts, mandate testing that requires HPLC instrumentation.

Waters manufactures over 100 HPLC instruments. A complete HPLC system consists of five basic components: the solvent delivery system, the sample

injector, the separation column, the detector and the data acquisition unit. The solvent delivery system pumps the solvent through the HPLC system, while the sample injector injects the sample into the solvent flow. The separation column then separates the sample into its components for analysis by the detector which measures the presence and amount of

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the constituents. The data acquisition unit then records and stores the information from the detector. Instrument and system sales comprise approximately two thirds of the Company's annual revenues.

Consumable products and service comprise the remaining one third of annual revenues. Consumable products primarily are columns packed with separation media used in the HPLC testing process and are replaced at regular intervals. The separation column contains one of several types of packing, typically stationary phase packing made from silica. As the sample flows through the column it is separated into its constituent components.

The acquisition of TAI expands the Company's product offerings to include thermal analysis and rheology products. Thermal analysis measures the physical characteristics of materials as a function of temperature. Changes in temperature affect several characteristics of materials such as their physical state, weight, dimension and mechanical and electrical properties, which may be measured by one or more thermal analysis techniques. Consequently, thermal analysis techniques are widely used in the development, production and characterization of materials in various industries such as plastics, chemicals, automobiles, pharmaceuticals and electronics. Rheology instruments complement thermal analyzers in characterizing materials. Rheology characterizes the flow properties of materials and measures their viscosity, elasticity and deformation under different types of loading. The information obtained provides insight with regard to a material's behavior during manufacture, transport, usage and storage. Approximately 80% of TAI's annual revenues pertain to instrument sales.

#### Customers

Waters has a broad and diversified customer base that includes pharmaceutical accounts, other industrial accounts, universities and government agencies. The pharmaceutical segment represents the Company's largest sector and includes multinational pharmaceutical companies, generic drug manufacturers and biotechnology companies. The Company's other industrial customers include chemical manufacturers, polymer manufacturers, food and beverage companies and environmental testing laboratories. Expanding into the industrial customer segment is the primary business objective behind the acquisition of TAI. The instrumentation used to make physical measurements (based on thermal analysis) is found in almost all customer settings that also utilize the Company's gel permeation chromatography. Furthermore, there is an important relationship between the information obtained from gel permeation chromatography analysis and the properties that can be measured by thermal analysis.

The Company also sells to various universities and government agencies worldwide and Waters' technical support staff work closely with these customers in developing and implementing applications that meet their full range of analytical requirements.

The Company does not rely on any one customer or group of customers for a material portion of its sales. During fiscal 1996, no customer accounted for more than 2% of the Company's net sales.

#### Research and Development

Waters maintains an active research and development program focused on the development and commercialization of products which both complement and update the existing product offering. The Company's research and development expenditures, including those of the Predecessor, for 1996, 1995 and 1994, were \$20.9 million, \$17.7 million and \$20.2 million, respectively. Nearly all of the current HPLC core products of the Company have been developed at the main research and development center in Milford, Massachusetts, with input and feedback from Waters' extensive field organization. Nearly all of the current thermal analysis products have been developed at TAI's research and development center in New Castle, Delaware and nearly all of the current rheology products have been developed at the TAI facility in England. At December 31, 1996, there were approximately 190 employees involved in the Company's research and development efforts, with approximately 30 employees at TAI. Among its various accomplishments, the Company recently attained accreditation with strict International Standards Organization ("ISO") 9001 standards for software development.

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#### Sales and Service

Waters has the largest sales and service team focused exclusively on HPLC in the industry. The Company serves its customer base through over 615 field representatives in 59 sales offices throughout the world, excluding TAI. Many of Waters' field representatives are former Waters' customers. The sales representatives have direct responsibility for account relationships, while

service representatives work in the field to install instruments and minimize instrument downtime for customers. Technical support representatives work directly with customers, helping them to develop customized applications and procedures to expand the use of HPLC as a testing method. Waters provides customers with comprehensive product literature and also makes consumable products available through a dedicated catalog. TAI sells and services its own products through over 100 field representatives in 11 offices throughout the world.

#### Manufacturing

Waters provides high quality HPLC products by controlling each stage of production of its instruments and columns. The Company assembles most of its instruments at its facility in Milford, Massachusetts, where it performs machining, wiring, assembly and testing. The Milford facility employs manufacturing techniques that meet the strict ISO 9002 quality manufacturing standards and FDA mandated Good Manufacturing Practices. The Company outsources manufacturing of certain electronic components such as computers and screens to outside vendors that can meet the Company's quality requirements.

The Company manufactures its columns at its facility in Taunton, Massachusetts, where it processes, sizes and treats silica and polymer media that are packed into columns, solid phase extraction cartridges and bulk shipping containers. The Taunton facility meets the same ISO and FDA standards met by the Milford, Massachusetts facility and is approved by the FDA to produce Class 1 medical devices.

TAI manufactures its thermal analysis products at its New Castle, Delaware facility and its rheology products at its Leatherhead, England facility.

#### Competition

The analytical instrument and systems market is highly competitive. The Company encounters competition from several worldwide instrument manufacturers in both domestic and foreign markets, although only one other company focuses principally on the HPLC market. Waters competes in this market primarily on the basis of instrument performance, reliability and service and, to a lesser extent, price. Many competitors who are not solely focused on the HPLC market have instrument businesses that are much larger than the Company's business. Certain competitors have greater financial and other resources than the Company.

The market for consumable products, including separation columns, is also highly competitive but is more fragmented than the instruments market. Waters encounters competition in the columns market from chemical companies that produce column chemicals and small specialized companies that pack and distribute columns. The Company believes that it is one of the few suppliers that processes silica, packs columns, and distributes its own product. Waters competes in this market on the basis of reproducibility, reputation and performance, and, to a lesser extent, price.

#### Patents, Trademarks and Licenses

Waters owns a number of United States and foreign patents and has patent applications pending in the United States and abroad. Certain technology and software is licensed from third parties. Waters also owns a number of trademarks. While the patents, licenses and trademarks are viewed as valuable assets, the Company's patent position is not of material importance to its operations.

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#### Employees

At December 31, 1996, Waters had approximately 1,865 employees, excluding TAI. More than 60% of the Company's employees are located in the United States. Labor relations are considered to be excellent and no Waters employees have union affiliations. At December 31, 1996, TAI had approximately 225 employees worldwide and their geographic distribution was similar to the distribution of Waters employees.

#### Environmental Matters

The Company is subject to Federal, state and local laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous wastes, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from sites of past spills, disposals or other releases of hazardous substances. The Company believes that it currently conducts its operations, and in the past has operated its business, in substantial compliance with applicable environmental laws. From time to time, operations of the Company have resulted or may result in noncompliance with or liability for cleanup pursuant to environmental laws. The Company does not currently anticipate any material adverse effect on its operations, financial condition or competitive position as a result of its efforts to comply with environmental laws.

Millipore has been notified that the United States Environmental Protection Agency has determined that a release or a threat of a release of hazardous substances as defined by CERCLA has occurred at certain sites to which chemical wastes generated by the manufacturing operations of the Predecessor have been sent. In each instance, Millipore was only one of a large number of corporations and entities which received such notification, and anticipates that any ultimate liability for remedial costs will be shared by others. In any instances involving chemical wastes generated by the Predecessor, Millipore has entered into partial settlements, paid its proportionate financial obligation and received partial releases.

In connection with the Acquisition, Millipore agreed to retain environmental liabilities resulting from pre-acquisition operations of the Company's facilities. Notwithstanding this contractual agreement, under CERCLA and similar environmental laws, the Company may remain primarily liable to certain persons for environmental cleanup costs.

Item 2: PROPERTIES

Waters operates 16 United States facilities and 55 international facilities. The Company believes its facilities are adequate for its current production level and for reasonable growth over the next few years. The Company's primary facilities are summarized in the table below.

Primary Facility Locations

Location	Function (1)	Owned/Leased	Square Feet (000's)
Milford, MA	M, R, S	Owned	408
Taunton, MA	M	Owned	32
St. Quentin, France	S	Leased	18
Singapore	S	Leased	5
Tokyo, Japan	R, S	Leased	12
New Castle, DE (2)	M, R, S	Leased	48
Leatherhead, England (2)	M, R, S	Leased	12

(1) M = Manufacturing; R = Research; S = Sales  
 (2) TAI facilities

Waters operates and maintains 13 field offices in the United States and 55 field offices abroad in addition to sales offices in Milford, MA and New Castle, DE. The Company's primary field office locations are listed below.

Field Office Locations (3)

United States	International		
Tustin, CA	Australia	Hungary	Puerto Rico
Wood Dale, IL	Austria	India	Russia
Fairfax, VA	Belgium	Italy	Singapore
Cary, NC	Brazil	Japan	Spain
Morristown, NJ	Canada	Malaysia	Sweden
Houston, TX	Czech Republic	Mexico	Switzerland
Pleasanton, CA	Denmark	Netherlands	Taiwan
Ann Arbor, MI	Finland	Norway	United Kingdom
Rolling Meadows, IL	France	People's Republic of China	
Lake Wylie, SC	Germany		
Felton, CA	Hong Kong	Poland	
Valley View, OH			

(3) Waters operates more than one office within certain states and foreign countries.

Item 3: LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of its business. None of the matters in which the Company or its subsidiaries are currently involved, either individually or in the aggregate, is material to the Company or its subsidiaries.

The Company is currently asserting a claim against Millipore under arbitration procedures specified in the purchase and sale agreement to the Predecessor. The Company contends that Millipore has undervalued the amount of assets it is obligated to transfer from the Millipore Retirement Plan to the Waters successor plan. The Company believes it has meritorious arguments and should prevail although the outcome is not certain. The Company believes that any outcome of the arbitration proceeding will not be material to the Company.



Item 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5: MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is registered under the Securities Exchange Act of 1934 and is listed on the New York Stock Exchange under the symbol WAT. As of March 24, 1997, the Company had approximately 314 common stockholders of record. The Company has not declared or paid any cash or other dividends on its Common Stock and does not expect to pay dividends for the foreseeable future. On September 12, 1995 the Company declared and paid a special distribution of \$16,195,169.

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The quarterly range of high and low sales prices for the Common Stock as reported by the New York Stock Exchange is as follows:

For the quarter ended -----	Price Range -----	
	High ----	Low ---
December 31, 1995 (commencing November 17, 1995)	\$ 18 1/8	\$ 13 1/4
March 31, 1996	24 5/8	16 3/4
June 30, 1996	33	24 3/8
September 30, 1996	33	25 1/4
December 31, 1996	33 5/8	25 7/8

Item 6: SELECTED FINANCIAL DATA

Reference is made to information contained in the section entitled "Selected Financial Data" on page 55 of the 1996 Annual Report, which information is incorporated herein by reference.

Item 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to the information on pages 29 to 35 of the 1996 Annual Report, which information is incorporated herein by reference.

Item 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Company's consolidated financial statements and notes thereto on pages 37 to 53 of the 1996 Annual Report together with the "Report of Independent Accountants" dated January 22, 1997 on page 36 and "Quarterly Results" on page 54, which information is incorporated herein by reference.

Item 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

a. Information concerning the Registrant's directors is set forth in the Proxy Statement under the headings "Election of Directors" and "Directors Meetings and Compensation." Such information is incorporated herein by reference.

b. Information required by Item 405 of Regulation S-K is set forth in the Proxy Statement under the heading "Director and Officer and Ten Percent Stockholder Securities Reports." Such information is incorporated herein by reference.

Item 11: EXECUTIVE COMPENSATION

Information concerning compensation of the Registrant's executive officers is set forth in the Proxy Statement under the heading "Management Compensation." Such information is incorporated herein by reference.

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Item 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners." Such information is incorporated herein by reference.

Item 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is set forth in the Proxy Statement under the heading "Certain Relationships and Related Transactions." Such information is incorporated herein by reference.

PART IV

Item 14: EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report

- (1) Reference is made to the Company's consolidated financial statements and notes thereto on pages 37 to 53 of the 1996 Annual Report, which information is incorporated herein by reference.
- (2) Not Applicable.
- (3) List of exhibits

Exhibit

Number Description of Document

- | Exhibit Number | Description of Document  |
|----------------|--|
| 3.1            | Second Amended and Restated Certificate of Incorporation of Waters Corporation, as amended to date. (1)  |
| 3.2            | Amended and Restated Bylaws of Waters Corporation, as amended to date. (1)   |
| 10.1           | Credit Agreement, dated as of November 22, 1995, among Waters Corporation, Waters Technologies Corporation, Bankers Trust Company and other Lenders party thereto. (2)   |
| 10.2           | First Amendment to Credit Agreement, dated as of March 6, 1996 among Waters Corporation, Waters Technologies Corporation, Bankers Trust Company and other Lenders party thereto. (2)   |
| 10.3           | Waters Corporation Amended and Restated 1996 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit A of the Proxy Statement for the 1996 Annual Meeting of Stockholders ("1996 Proxy Statement").       |
| 10.4           | Waters Corporation 1996 Employee Stock Purchase Plan. Incorporated by reference to Exhibit B of the 1996 Proxy Statement.  |
| 10.5           | Waters Corporation 1996 Non-Employee Director Deferred Compensation Plan. Incorporated by reference to Exhibit C of the 1996 Proxy Statement.  |
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| 10.6           | Waters Corporation Amended and Restated 1996 Non-Employee Directors Stock Option Plan. Incorporated by reference to Exhibit D of the 1996 Proxy Statement.   |
| 10.7           | Agreement and Plan of Merger among Waters Corporation, TA Merger Sub, Inc. and TA Instruments, Inc. dated as of March 28, 1996. Incorporated by reference to the Registrant's Report on Form 8-K dated March 29, 1996.       |
| 10.8           | Offer to Purchase and Consent Solicitation Statement, dated March 7, 1996, of Waters Technologies Corporation. Incorporated by reference to the Registrant's Report on Form 8-K dated March 11, 1996.                        |
| 10.9           | WCD Investors, Inc. Amended and Restated 1994 Stock Option Plan, as amended (including Form of Amended and Restated Stock Option Agreement). (2)   |
| 10.10          | Waters Corporation Retirement Plan. (2)  |
| 10.11          | Registration Rights Agreement made as of August 18, 1994, by and among WCD Investors, Inc., AEA Investors, Inc., certain investment funds controlled by Bain Capital, Inc. and other stockholders of Waters Corporation. (2) |
| 10.12          | Form of Indemnification Agreement, dated as of August 18, 1994, between WCD Investors, Inc. and its directors and executive officers. (2)  |
| 10.13          | Form of Management Subscription Agreement, dated as of August 18, 1994, between WCD Investors, Inc. and certain members of management. (2)   |
| 11.1           | Statement of Computation of Per Share Earnings.  |



/s/ Thomas P. Salice                    Director  
-----  
Thomas P. Salice

/s/ Marc Wolpow                        Director  
-----  
Marc Wolpow

WATERS CORPORATION AND SUBSIDIARIES  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS  
(In thousands, except per share amounts)

	August 19, to December 31, 1994	Year Ended December 31, 1995	Year Ended December 31, 1996
	-----	-----	-----
Historical			
Common stock outstanding, beginning of period	21,482	21,482	28,796
Weighted average cheap stock	3,540	3,136	-
Weighted average number of common stock equivalent shares	-	286	5,220
Weighted average number of shares in connection with the Company's IPO and upon exercise of the Warrant	-	840	-
Weighted average shares issued upon exercise of stock options	-	-	66
Less: Assumed purchase of treasury shares	(1,170)	(1,162)	(2,454)
Weighted average number of common shares	23,852	24,582	31,628
(Loss) income from continuing operations	(\$80,191)	\$14,113	\$19,859
(Loss) from discontinued operations	(7,213)	-	-
Extraordinary Item	-	(12,112)	(22,264)
Net (loss) income	(87,404)	2,001	(2,405)
Less: accretion of and 6% dividend on preferred stock	(330)	(902)	(921)
Net (loss) income available to common stockholders	(\$87,734)	\$1,099	(\$3,326)
Income (loss) income per common share:			
(Loss) income per common share from continuing operations	(\$3.38)	\$0.54	\$0.60
(Loss) per common share from discontinued operations	(0.30)	-	-
Extraordinary (loss)			
per common share	-	(0.49)	(0.71)
Net (loss) income per common share		(\$3.68)	\$0.05

&lt;/TABLE&gt;

- ----

- (1) In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 83 ("SAB No. 83") all common equivalent shares and other potentially dilutive instruments (including stock options and warrants) issued during the twelve month period prior to the initial filing date of the Company's initial public offering Registration Statement have been included in the calculation as if they were outstanding for all periods presented. The common equivalent shares for stock options and warrant were determined using the treasury stock method at the initial public offering price of \$15.00 per share.
- (2) Fully diluted net (loss) income per share is the same as primary net (loss) income per share.

1996  
The year in measurement

[LOGO]

Waters  
Annual Report

[FRONT COVER - VISUAL DEPICTION OF AN ASPIRIN]

Waters(TM) Corporation (NYSE: WAT) is the world's leading supplier of high performance liquid chromatography instrumentation and consumables, as well as thermal analysis products. Around the world, Waters products are used by pharmaceutical, industrial and university research and development laboratories. For these markets, we provide technology that helps break matter down to its molecular level. By turning analytical data into useful information, Waters helps its clients understand the complexities of chemistry and life itself.

### Financial Highlights

#### Adjusted Financial Results (A):

(\$ in thousands, except per share data)	1996	1995	Percentage Change
For the year:			
Net sales	\$391,113	\$332,972	17%
Operating income	71,229	56,267	26%
Income from continuing operations before income taxes	56,489	38,621	46%
Net income available to common stockholders	44,338	30,700	44%
Income per common share from continuing operations	\$ 1.40	\$ 1.02	37%
At year end:			
Total assets	\$365,502	\$299,816	
Stockholders' equity	57,780	58,118	
Return on assets	12.1%	10.2%	
Return on equity	76.7%	52.8%	

(A) Adjusted financial results for 1996 reflect adjustments to reported results of operations necessary to eliminate nonrecurring charges related to the May 1996 acquisition of TA Instruments, Inc. and the Company's April 1996 tender for its then remaining subordinated debt. These amounts had no related tax effects. Adjusted financial results for 1995 reflect adjustments to reported results primarily necessary to eliminate nonrecurring charges related to the Company's November 1995 initial public offering ("IPO"), reduce interest expense to reflect the capital structure achieved with the Company's IPO, and record related income tax effects. A reconciliation of reported results to adjusted results follows in the table below.

	1996	1995
Net (loss) income available to common stockholders - as reported	\$ (3,326)	\$ 1,099
Adjustments:		
Eliminate revaluation of acquired inventory	(6,100)	(925)

Eliminate charge to SG&A for one-time acceleration of compensatory stock option vesting	-	(3,567)
Eliminate expensed in-process research and development related to the TAI acquisition	(19,300)	-
Eliminate management fee under agreement terminated in conjunction with the Company's IPO	-	(5,393)
Adjust interest expense to reflect financing associated with post-IPO capital structure	-	(11,494)
Adjust tax provision for items above	-	3,881
Eliminate extraordinary loss from early extinguishment of debt	(22,264)	(12,112)
Adjust preferred stock dividend and accretion to reflect Company's current capital structure	-	9
Total adjustments	47,664	29,601
Net income available to common stockholders - as adjusted	\$ 44,338	\$ 30,700

President's Letter

[GRAPHIC]

The year just concluded was successful not only financially for Waters, with sales growth of 17% and earnings growth of 37% (excluding nonrecurring items), but was a year of significant strategic progress for the company as well. First, in our core chromatography business, we launched a revolutionary new instrument platform, The Alliance(TM) System; and second, we acquired TA Instruments(TM) and its thermal analysis technology, providing Waters with a major new complementary growth opportunity.

The Alliance System debuted at The Pittsburgh Conference in March 1996, and has been quickly established as the HPLC performance leader. Customer response has been extremely positive and has driven HPLC growth rates to double-digit levels in the second half of 1996.

By July 1996, the Alliance System had been introduced in all regions of the world. Encouragingly, the Company's strong second-half performance was broad based with all major regions contributing equally to sales growth.

The success of the Alliance System underscores the real growth opportunity for us in our core markets. The Alliance System enables customers to improve their results through better chromatography. Customers clearly see this performance advantage and are encouraging us to continue to provide state-of-the-art HPLC solutions for their applications.

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We intend to meet these customer needs by continuing to invest in our three major platform areas: our instrumentation, principally with the Alliance System; our software, with our market leading Millennium(R) Chromatography Manager Software; and chemistry, with a full range of consumable products, led by our novel Symmetry(R) product line.

No one is better positioned than Waters to provide a full range of state-of-the-art technologies in each of these important areas, and we intend to introduce important new products in each of these areas during 1997.

TA Instruments is the world leader in the field of thermal analysis -- a technology complementary to HPLC which is particularly important for the analysis of polymers and plastics. We acquired TA Instruments in May 1996 for its technology and market leadership in a section of the analytical instrument marketplace where we had been underrepresented and where we saw opportunity. We were also attracted to TA Instruments by its culture and management which is very similar to Waters, with an emphasis on strong customer service, state-of-the-art products and application solutions for customers. TA Instruments' performance in 1996 exceeded our expectations, and ended 1996 with growth rates in the solid double digits. This business has a strong pipeline of new products in development, and we are optimistic about our opportunity to maintain and extend our competitive position. We believe that, with TA Instruments, we have a strengthened foundation in the industrial marketplace that can accelerate its growth by acquiring products and businesses which augment the base business.

We also made key investments to improve our infrastructure in 1996. We successfully converted legacy information systems in Europe and Asia to new state-of-the-art business systems based on software from SAP AG. These systems were delivered on time and on budget. Over the next 18 months, the United States and the remainder of our international operations will be converted as well. With these new systems in place, our information systems architecture will be ready to support our 21st century growth strategy.

As we look to 1997 and the future, the success we experienced and the investments we made in 1996 make us confident in our ability to sustain above-average performance in our very competitive industry. I'd like to thank our customers for their continued support and the worldwide Waters organization for its hard work and dedication in 1996, both of which made such a successful year possible.

Sincerely,

/s/ Douglas A. Berthiaume

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

3

We gauge  
our results

on an international basis. No matter how you measure it, the world is getting smaller. And that means Waters is an increasingly global corporation. Today, two thirds of our sales come from outside of the United States. While Japan and Europe remain our largest international markets, our fastest growth is expected to come from emerging markets -- particularly in the Pacific Rim. But no matter where the customer is, our more than 2,000 employees throughout the world have been extremely successful at taking the Waters philosophy, fitting it to local needs, and delivering solutions that result in satisfied customers.

Bar graph that illustrates revenue by geography as follows:

United States - 38%  
Europe - 30%  
Japan - 12%  
Asia/Pacific Rim - 9%  
Rest of World - 11%

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Visual depiction of the German Deutsche Mark with overlays that illustrate revenue by geography as follows:

United States - 38%  
Europe - 30%  
Japan - 12%  
Asia/Pacific Rim - 9%  
Rest of World - 11%

Local sales & support worldwide.

48 offices in 29 countries.

How do You Measure Achievement?  
- - - - -

CHART (no data points)  
[Caption] Alliance HPLC Systems -- improving the quality of HPLC results

When it comes to Waters, one could argue that the most accurate way to measure success is with a High Performance Liquid Chromatography (HPLC) system. After all, that is precisely what we help our customers do every day, in every corner of the globe. For example, we're aiding customers in their quest to create and manufacture important new drugs. We're making sure that the taste quality of their food and beverage products is consistent. We're helping them comply with governmental regulations, keeping water cleaner. And we're providing knowledge that allows them to make major medical breakthroughs.

What is it that we do? In simple terms, we provide the tools that make analytical measurements, and then turn analytical data into usable information. In more complex terms, HPLC separates the individual chemical components of liquids (or chemical mixtures that can be converted into a liquid state), so they can be identified, purified or quantified. This helps chromatographers (analytical chemists, biochemists, materials scientists and other professionals) make smarter decisions faster. Or it gives them confidence that their chemical formulations are identical, batch after batch, year after year. It lets them know, with precision, if there is something in their product that does not belong there. Examples of industries where HPLC is employed include

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pharmaceutical, food, beverage and industrial chemical companies, as well as government agencies, universities and research institutes.

Shaped By The Past, Present And Future. Waters pioneered HPLC, back in the 1960's. And today, the future of HPLC is bright, both in the short and long term. The size of the HPLC market is currently estimated at \$1.9 billion. And, with a market share estimated to be twice that of our nearest competitor, Waters is the world's largest supplier of HPLC technologies.



CHART (no data points)  
[Caption] Symmetry HPLC Columns -- a new standard for reproducibility

Our customers include most Fortune 500 companies, in addition to major corporations all over the world. And their products are things you use every day. From cola to aspirin, from tires to perfume.

Reviewing Our First Year As A Public Company. While increases in orders, sales and profitability can be easily measured, other things, just as important to the success of a company, are more difficult to quantify. One such intangible is the spirit and culture of an organization. For Waters, 1996 was a year filled with enthusiasm and a sense of purpose. Based in large part on the successful launch of our Alliance HPLC system concept and excitement about the introduction of several new products in 1997, Waters employees have a heightened sense of pride and teamwork, and a dedication to maintaining their position as the industry's innovative leader.

CHART (no data points)  
[Caption] Millennium Chromatography Software for HPLC and GC results management

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The sweet

smell of success The worldwide analytical instrument market size is estimated at \$11.0 billion, and HPLC is the largest segment. From manufacturing the world's most sophisticated fragrances, to making motor oil, laboratories invest in numerous different technologies, depending on their analytical needs. HPLC, however, represents the single largest segment, since over 80% of compounds known to science can be characterized by HPLC. Complementary technologies like thermal analysis, which we acquired with the TA Instruments, Inc. purchase in 1996, give scientists additional means to characterize not only chemical mixtures but the associated physical properties of materials made of these mixtures, such as plastics, rubber and other highly engineered materials.

Linear chart that illustrates estimated worldwide demand in 1996 for analytical instrumentation (in billions of U.S. dollars) as follows:

- High performance liquid chromatography - \$1.9
- Molecular spectroscopy - \$1.6
- Molecular bioinstrumentation - \$1.5
- Gas-phase chromatography - \$1.4
- Surface sciences - \$1.2
- Atomic spectroscopy - \$1.1
- Other analytical techniques - \$1.0
- Physical properties - \$0.9
- Mass spectroscopy - \$0.4

8

Visual depiction of a perfume bottle with overlays that illustrate the estimated worldwide demand in 1996 for analytical instrumentation (in billions of U.S. dollars) as follows:

- High performance liquid chromatography - \$1.9
- Molecular spectroscopy - \$1.6
- Molecular bioinstrumentation - \$1.5
- Gas-phase chromatography - \$1.4
- Surface sciences - \$1.2
- Atomic spectroscopy - \$1.1
- Other analytical techniques - \$1.0
- Physical properties - \$0.9
- Mass spectroscopy - \$0.4

The new standard by which all other  
-----  
HPLC systems will be measured  
-----

CHART (no data points)  
[Caption] Alliance HPLC Systems -- a bold new direction in HPLC

In March of 1996, Waters launched a new breed of HPLC instrument: The Alliance System. The importance of this introduction to Waters cannot be overemphasized. Not only was the technology judged an unqualified success by our customers, but it was also a shining example of the spirit of innovation and teamwork that defines the Waters work force worldwide.

To truly grasp the significance of the Alliance System concept, it is necessary to understand a few things about the HPLC industry. For years, major instrument suppliers had been marginally improving their HPLC systems. And fundamental system design had remained basically unchanged. The prevailing attitude was that maximum performance and reliability had been reached. Customers and equipment suppliers were satisfied with what they had. Waters

challenged that attitude and, with the Alliance System, sent HPLC in a bold new direction. With technology that made results dramatically more accurate and reliable. And gave customers a reason to reevaluate what they should expect from an HPLC system.

Fundamental to the Alliance System concept was the industry's first system that combined solvent and sample management. The functional integration of a new design for solvent delivery with the world's most respected autosampler brought more consistent performance, enhanced reproducibility and higher quality results.

Reaction to the Alliance System was swift and clear. At Pittcon, the HPLC industry's biggest trade show, the Alliance System was the talk of the town. American Laboratory magazine called our Alliance System the "most impressive product introduction in HPLC" at Pittcon. Instrument Business Outlook, a major industry publication covering the show, noted "Alliance is a major step forward in HPLC instrumentation that will

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set a new standard for performance."

In October, a blue-ribbon panel of independent scientists, educators, and science journalists appointed by France's Institut National des Sciences Applique[ ]s (INSA) awarded our Alliance System its top innovation award at a ceremony at INSA LABO, one of Europe's most highly-regarded industry exhibitions.

But more important was the reaction of customers. Both ours and our competitors'. Orders for the Alliance System far exceeded our most optimistic forecasts. And because the worldwide launch was just completed in July, the full impact to the Waters bottom line is still being realized. Just as importantly, the Alliance System has greatly added to our ability to compete for new business in strategic accounts.

We believe the Alliance System concept is the most important new HPLC product in the past 15 years. Moreover, it will provide the basis for the Waters approach to HPLC for many years to come.

CHART (no data points)  
[Caption] Integrity System for positive compound identification

And Alliance represents our commitment to developing the most innovative products and technologies.

More Integrity Than Ever. Mass spectrometry is a powerful detection technique for HPLC. It provides much more sensitive and sophisticated information about HPLC samples. Until the launch of the Waters Integrity(TM) System in 1994, these instruments were extremely large, costly and difficult to use. The benchtop Integrity System changed everything, truly bringing mass spec to the masses.

In 1996, Waters brought the power of Alliance HPLC System performance to Integrity Systems and orders nearly doubled compared to the previous year.

During 1997, Waters plans to introduce a new mass spectrometry detector coupled with our Alliance System to take advantage of opportunities in the high-growth pharmaceutical analysis segment of the instrument market. Scientists will be able to generate higher-quality results in less time, helped by relational database technology to organize this increased productivity.

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The business of making people feel better. The pharmaceutical industry is our largest market. By all indications, 1996 was the best year ever for this important customer segment. According to the Pharmaceutical Research and Manufacturers of America, sales of ethical pharmaceuticals were expected to have topped \$96 billion and research and development spending to have exceeded \$15 billion, both new records. The number of new biotechnology drugs in production increased 21% in 1996. These factors significantly contributed to the overall growth of our core HPLC business in 1996.

Linear timeline indicating HPLC pharmaceutical applications in numerical order from 1 to 8 as follows:

- 1 - Discovery of new chemical entities
- 2 - Toxicological studies
- 3 - Impurity profiling
- 4 - Clinical trials
- 5 - Stability analyses
- 6 - Bulk drug assays
- 7 - Dissolution testing
- 8 - Content uniformity analyses

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Visual depiction of a drug capsule that illustrates the significance of HPLC in pharmaceutical research, development and quality control during the discovery phase, clinical phase, and commercial phase:

- Discovery of new chemical entities (Discovery and clinical phases)
- Toxicological studies (Discovery and clinical phases)
- Impurity profiling (Clinical phase)
- Clinical trials (Clinical and commercial phases)
- Stability analyses (Clinical phase)
- Bulk drug assays (Clinical and commercial phases)
- Dissolution testing (Clinical and commercial phases)
- Content uniformity analyses (Clinical and commercial phases)

#### Analyzing the Analytical Column

-----

CHART (no data points)

[Caption] Symmetry Columns -- for improved run-to-run reproducibility

After the instrument itself, the second critical component of an HPLC system is the analytical column. The analytical column actually separates the sample's constituents from one another, so that their concentrations can be accurately measured.

Obviously, the success of any HPLC separation depends on the quality of the analytical column in which that separation takes place. What's more, the consistency of the column is critical, so that methods used can be repeated or transferred to other sites with exactly the same results.

With this in mind, Waters developed the Symmetry(R) line of columns, launched in late 1994. Our goal was to create the first world-class standard for columns to be used in the next generation of drug assays. We succeeded in bringing to market a product that is unsurpassed in performance, column-to-column reproducibility and durability.

In fact, much like our Alliance System is changing what customers expect from HPLC instruments, Symmetry columns have reset customer expectations in terms of analytical columns.

Today, many pharmaceutical companies around the world are using Symmetry columns in the research and development phases of various new, important drugs. And once a column

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CHART (no data points)

[Caption] Oasis HLB Extraction Cartridges for HPLC sample preparation

is specified for a given drug, it becomes tied to a drug company's overall strategy for ensuring the quality of that product -- meaning sales for the column continue as long as the drug is manufactured.

In 1996, sales of Symmetry columns increased by almost 50%, exceeding our revenue projections. The vast majority of columns went to pharmaceutical accounts. Many of these columns were used in the development of products that will soon be coming to market. That means future sales of Symmetry columns should continue to grow strongly.

Broadening Our Product Line. The past year also saw the introduction of Oasis(TM) HLB single-use, disposable sample preparation cartridges. Launched in November at the annual meeting of the American Association of Pharmaceutical Scientists, Oasis HLB cartridges are based on a patented\* polymeric sorbent technology that makes it faster and easier to prepare HPLC samples by eliminating all but the compounds of interest.

Oasis HLB cartridges are the industry's first product of its type, and the first from our new polymeric technology platform. And they represent one of Waters' most important new sample preparation product platforms ever, since they provide access to a \$50 million market opportunity not addressed by Waters today.

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Good chemistry As one might expect, Waters has many customers in the chemical and material industries. HPLC and thermal analysis come into play in the production of a diverse group of these products. From the coating on CDs to the waterproofing on coats. From semiconductors to semi-tractor tires, Waters technologies are an integral part of the development and manufacturing process.

Linear chart that depicts chemical industry applications in the following order:

- Competitive product analysis
- Incoming raw material inspection
- Process development and control
- Materials research
- Analytical support services
- Methods development
- Environmental testing

Visual depiction of compact disk with a pie chart overlay that illustrates chemical industry applications as follows:

- Competitive product analysis
- Incoming raw material inspection
- Process development and control
- Materials research
- Analytical support services
- Methods development
- Environmental testing

. Thousands of Laboratories

-----

. HPLC Essential

----

. TAI's Biggest Market

----

A New Measure of Intelligence

- -----

CHART (no data points)

[Caption] Millennium Chromatography Software for HPLC results management

Generating reams of accurate, consistent results is one thing. Using them intelligently is another. Two initiatives that Waters began last year should have a substantial impact on helping customers employ their chromatography systems with greater intelligence than ever before. And these projects will also have a strong influence on the future of Waters for many years to come. The first of these is a new software system that makes it easier for chromatographers to manage information. The second makes conventional service and support obsolete, and draws upon Waters' unparalleled intellectual capital to help customers in new ways. Both initiatives also represent significant new areas for revenue growth and increased market penetration.

The New Millennium Comes Early. There are several reasons why managing information is important to the chromatography process. When customers use chromatography for research purposes, they need fast, flexible access to the data files for the myriad of tests they have run - which may number into the hundreds or thousands. And when applying for government approval of a drug, or after a drug is put into production, exact records are critical. Information management can also turn a difficult government audit into a much more manageable process.

Millennium software is the industry-leading, best-selling liquid chromatography software. More than 14,000 copies of Millennium software have been sold to date. That makes it the

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world's leading software platform for liquid chromatography data management. Millennium software is available in versions for individual computer workstations and for networked chromatography computer workstations. Orders for our Millennium net-working products grew a robust 50% in 1996, as more companies adopt Millennium software as their data management software standard.

This year, Waters is scheduled to release the newest state-of-the-art version of Millennium software, to coincide with the migration of thousands of laboratories to Microsoft(R) Windows(R) 95 and Windows NT(R). With a rich feature set and powerful capabilities, this new version of Millennium software will be one of the most sophisticated and powerful applications ever developed for the Windows environment.

The Right Connections. No other company has a longer history of HPLC innovation and experience than Waters. This is the basis of an exciting new approach to support and service: Waters Connections(TM) program. It represents an efficient new way to provide service for our customers, while improving overall responsiveness and emphasizing preventive maintenance. It also allows us to aggressively market a mix of service products better suited to individual client needs.

CHART (no data points)

[Caption] Industry-leading Millennium Chromatography Software

After-sale service and support is one of our fastest-growing areas of business. The Connections suite of service products should make it only more so. Using our experienced technicians, as well as the Internet and CD-ROM, Connections service products will furnish customers with application information, education, performance assurance and regulatory compliance assistance.

And, we will increase our emphasis on preventive maintenance; in the end that means more uptime and improved productivity for our customers, and more effectively managed business for us.

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It's all important

(and profitable) Whether we're helping companies formulate or fortify a new fruit juice for their kiwi raspberry drink or develop a more powerful antacid, no other supplier of HPLC products has the depth and breadth of line that Waters offers. With leading-edge offerings in instrumentation, consumables and data management software, we offer a one-stop source for our customers. This focus, we believe, will continue to differentiate us from our major competition. And since all of our major product lines are still early in their life-cycle, the groundwork is set for strong performance for some time to come.

Bar graph that illustrates revenue by product line as follows:

Instrumentation and software - 63%  
Service and support - 20%  
Consumables - 17%

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Visual depiction of a sliced Kiwi fruit with a pie chart overlay that illustrates revenue by product line as follows:

Instrumentation and software - 63%  
Service and support - 20%  
Consumables - 17%

Instrumentation & Software:  
. Alliance HPLC Systems  
. Millennium Chromatography Software  
. Thermal Analysis Systems  
Service and Support:  
. Connections Program  
Consumables:  
. Symmetry Columns  
. Oasis HLB Cartridges  
. over 50 thousand sold!

#### New Directions and New Opportunities

- - - - -

CHART (no data points)

[Caption] TA Instruments Dynamic Mechanical Analyzer for measuring the mechanical properties of materials

The largest market for HPLC products and services remains the pharmaceutical industry. While 1996 was perhaps the best year in history for sales to this market, 1997 looks even brighter. The Pharmaceutical Research and Manufacturers of America estimates that in 1997 R & D spending by pharmaceutical companies will exceed last year's total by 11%. Presently there are nearly 7,000 pharmaceuticals and biopharmaceuticals in development by more than 900 therapeutic drug companies worldwide. There is also a renewed focus on streamlining the drug approval process. These are all factors which bode well for the use of HPLC. Since Waters' core technology is well-suited to this market, we are well-positioned to capitalize on the anticipated growth.

One of the most significant events this past year was our acquisition of TA Instruments, Inc. (TAI). TAI is the world leader in thermal analysis, the most common measurement technique for characterizing polymers. Examples of polymers include rubber, plastics, proteins and starch. There are strong complementary relationships between the information obtained by our HPLC technology and thermal analysis. It is these relationships that we believe will bring new advantages to companies involved with the development, fabrication and quality control of high performance materials.

The worldwide market for thermal analysis and related products is close to \$250 million, and many of TAI's current customers are also Waters' customers.

Consistent with our philosophy of adding complementary capabilities in other areas of expertise, TAI will strengthen our position in the very important chemical marketplace. Acquisitions of this type profitably expand and leverage our customer base.

New Allies. Also key to the future are new partnerships designed to create

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additional value for our customers. One example is our strategic partnership with Source for Automation, Inc. (Milford, Mass.). Together we are working to take their expertise in automated sample extraction and combine it with HPLC to establish an entirely new solution for auto-mated content uniformity testing for pharmaceutical companies. A second partnership with Wyatt Technology Corp. (Santa Barbara, Calif.) strengthens our offering for polymer characterization by combining our Alliance System platform with their patented light-scattering detector technology.

Another example of new opportunity is software that links Millennium workstations or client/server systems to virtually any commercial Laboratory Information Management system, allowing scientists to better track all analyses performed on their samples.

These and other alliances will give us new capabilities that will expand our marketplace.

It's All Important. There are four keys to the success of an HPLC procedure. First, the instrument that performs the procedure must be accurate and reliable. Second, it is imperative that the analytical column, or the consumable element used for every test, be of high quality and consistency. Third, the data management software used for organizing, analyzing and storing results and methods must be flexible, powerful and easy to use. And finally, companies that employ HPLC must have access to service and support that help them get the most out of their applications. If just one of these elements is not up to par, the entire procedure is compromised.

Waters is the only company in the world that has industry-leading technology in all four of these areas. Moving forward, we intend to leverage each of them, and combine them more powerfully, to serve our customers more completely, and solidify our position as the definitive, single resource for HPLC solutions.

In short, as we look both back and ahead, one might sum up our first year as a public company stating that, by virtually any measure, 1996 was a successful year. Yet, we would like to think of it another way: as just the beginning.

1. Scrip Magazine, Review Issue of 1996,  
PJB Publications, London, England

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A strong foundation for future growth Waters' management team has the good fortune to lead an organization that is rich in intellectual capital, and that possesses a highly skilled work force. This combination of motivated and talented individuals will be instrumental in moving Waters to even greater profitability and productivity. Our management and employees are working together to implement new systems and technologies that will increase our competitive advantage, and lay the groundwork for future growth.

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Photograph of Waters' executive officers from top-left to bottom-right as follows:

Brian K. Mazar - Vice President, Human Resources and Investor Relations  
Philip S. Taymor - Senior Vice President and Chief Financial Officer  
Devette W. Russo - Vice President, Chromatography Consumables Division  
John R. Nelson - Senior Vice President, Research, Development, and Engineering  
Thomas W. Feller - Senior Vice President, Operations  
Douglas A. Berthiaume - Chairman, President, and Chief Executive Officer  
Arthur G. Caputo - Senior Vice President, Worldwide Sales and Marketing

[Captions to art (group shot) on page by self ]

Brian K. Mazar  
Vice President, Human Resources  
and Investor Relations

Philip S. Taymor  
Senior Vice President  
and Chief Financial Officer

Devette W. Russo  
Vice President,  
Chromatography  
Consumables Division

John R. Nelson  
Senior Vice President

Research, Development,  
and Engineering

Thomas W. Feller  
Senior Vice President  
Operations

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

Arthur G. Caputo  
Senior Vice President  
Worldwide Sales and Marketing

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#### Waters Corporation and Subsidiaries

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

##### OVERVIEW

Waters Corporation ("Waters" or the "Company") is the world's largest manufacturer, distributor and provider of high performance liquid chromatography ("HPLC") instruments, columns and other consumables, and related service. The Company has the largest HPLC market share in the United States, Europe and non-Japan Asia and has a leading position in Japan. HPLC, the largest product segment of the analytical instrument market, 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. With its acquisition of TA Instruments, Inc. ("TAI") in May 1996, Waters is also the world's leader in thermal analysis, a prevalent and complementary technique used in the analysis of polymers. Waters Corporation was established to acquire the predecessor Waters Chromatography Division ("Predecessor") of Millipore Corporation ("Acquisition") on August 18, 1994. Waters Corporation became a publicly traded company with its initial public offering ("IPO") in November 1995.

After sales growth of 8% in 1995, sales for the year ended December 31, 1996 grew by 17% over the comparable prior year period. Sales growth increased as a result of the introduction of new products, improvement in the HPLC market and the effect of the TAI acquisition. While some product prices have increased and others have decreased over the past three years, overall pricing has remained generally stable.

Waters has improved operating income levels in 1995 and 1996 on the strength of sales growth, significant cost reductions and operating leverage. In particular, as a result of measures taken in conjunction with the Acquisition and restructuring actions completed in late 1994, the Company reduced annual operating spending by over \$20 million in 1995. These savings reduced cost of sales; selling, general and administrative expenses; and, to a lesser extent, research and development spending. The Company has continued to benefit from these cost reduction measures and has augmented them with new initiatives in 1996.

Excluding 1996 nonrecurring charges related to the purchase of TAI and 1995 nonrecurring charges related to the Company's IPO and purchase of Phase Separations Limited; operating income for the year ended December 31, 1996 was \$71.2 million, a 26% increase over the \$56.3 million generated in 1995. Excluding 1995 nonrecurring charges and 1994 nonrecurring charges related to the Acquisition of the Predecessor in August 1994; 1995 operating income represented a 72% increase over 1994 primarily as a result of the \$20 million of spending reductions. Excluded 1996 nonrecurring charges were as follows: \$6.1 million of revaluation of acquired inventory and \$19.3 million of expensed in-process research and development. Excluded 1995 nonrecurring charges were as follows: \$0.9 million of revaluation of acquired inventory, \$5.4 million of management fees under a management services agreement terminated in conjunction with the

Company's IPO and \$3.6 million of expense included in selling, general and administrative expenses for the one-time acceleration of vesting of certain compensatory stock options in the fourth quarter. Excluded 1994 nonrecurring charges were as follows: \$38.4 million of revaluation of inventory, \$53.9 million of expensed in-process research and development, \$0.6 million of management fees and \$3.5 million of restructuring charges associated with the Acquisition of the Predecessor.

Based upon the re-engineering of its operations, the Company believes it can continue to leverage its infrastructure to support additional sales without a corresponding increase in costs.

During 1996, approximately 63% of the Company's combined net sales were derived from operations outside the United States. The Company believes that the geographic diversity of its sales reduces its dependence on any particular region. The U.S. dollar value of these revenues varies with currency exchange fluctuations, and such fluctuations can affect the Company's results from period to period. In 1996, each 1% average strengthening of the U.S. dollar would have decreased reported net sales by approximately \$2.4 million while each 1% weakening of the dollar would have increased reported net sales by \$2.4 million. The impact on net income and cash flow would have been significantly less as a result of local currency expenditures. Prior to the fourth quarter of 1995, the Company periodically entered into forward exchange contracts (which had initial maturities of 24 months or less) to economically hedge a significant portion of the U.S. dollar value of its anticipated future international cash flows. Generally accepted accounting principles required that those contracts outstanding at period end be valued at current market value with the resulting unrealized gain or loss reflected in the statements of operations for the period even though they economically hedged anticipated future cash flows. In the fourth quarter of 1995, the Company ceased to economically hedge anticipated future international cash flows and therefore liquidated those particular forward currency contracts. As of December 31, 1996, the Company's outstanding forward currency contracts amounted to \$3.3 million and hedged the dollar value equivalent of specified customer commitments. The Company does not speculate in foreign currencies.

#### EFFECT OF ACQUISITION ON RESULTS OF OPERATIONS

The consummation of the Acquisition of the Predecessor affected the Company's results of operations following the Acquisition in certain significant respects. The Acquisition was structured as an asset purchase which created certain tax benefits from the revaluation of inventory, property, plant and equipment and intangible assets. The Company adjusted upward the historical book value of certain assets in accordance with generally accepted accounting principles. Consequently, depreciation and amortization expense related to goodwill and other intangibles increased subsequent to the Acquisition as did interest expense related to debt used to finance the Acquisition.

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#### Waters Corporation and Subsidiaries

#### OPERATING INCOME DATA

Because of the revaluation of the assets and liabilities of the Predecessor and the related impact on cost of sales and expenses, the financial statements of the Predecessor for periods prior to August 19, 1994 are not strictly comparable to those of subsequent periods. However, the following table combines 1994 data for the Predecessor and Company in order to facilitate management's discussion of financial results.

	Company Year Ended December 31, 1996	Company Year Ended December 31, 1995	Combined Year Ended December 31, 1994
Net sales	\$ 391,113	\$ 332,972	\$307,154
Cost of sales	145,254	126,216	123,186
Revaluation of acquired inventory (A)	6,100	925	38,424
Gross profit	239,759	205,831	145,544
SG&A expenses (B)	148,513	132,746	129,738
R&D expenses	20,898	17,681	20,189
Expensed in-process R&D (A)	19,300	--	53,918
Goodwill and purchased technology amortization (C)	5,219	3,629	1,227
Management fee (A)	-	5,393	552
Restructuring charge (A)	-	-	3,500
Operating income (loss)	\$ 45,829	\$ 46,382	\$ (63,580)

(A) Non-recurring charges.

(B) The year ended December 31, 1995 includes a \$3,567 non-recurring charge for one-time acceleration of vesting of compensatory stock options.

(C) For the 1994 period, amount reflects amortization only for the period August 19, 1994 to December 31, 1994.



#### RECENT EVENTS

On May 1, 1996, the Company acquired all of the common stock of TAI for \$84 million in cash, subject to certain adjustments, financed by drawings on the revolving credit facility under the New Bank Credit Agreement. As a result, the Company recorded nonrecurring charges for the revaluation of acquired inventory of \$6.1 million and expensed in-process research and development of \$19.3 million during the second and third quarters of 1996. TAI develops, manufactures, sells and services thermal analysis and rheology instrumentation which is used for the physical characterization of polymers and related materials. Thermal analysis and rheology are among the most prevalent techniques employed in the analysis of polymers and other organic/inorganic materials. TAI is the global market leader in the field of thermal analysis. Net sales for TAI were approximately \$14 million through April 30, 1996 and \$47 million in 1995.

On March 6, 1996, the Company increased the maximum availability under the New Bank Credit Agreement to \$300 million in order to simplify its capital structure and provide additional financial flexibility. On March 7, 1996, the Company commenced a tender offer pursuant to which the \$75 million in aggregate principal amount of Senior Subordinated Notes, which were not previously redeemed, were purchased on April 4, 1996. The Company recorded a \$22.3 million extraordinary loss in the second quarter of 1996 due to the early extinguishment of its Senior Subordinated Notes.

#### COMPANY YEAR ENDED DECEMBER 31, 1996 COMPARED TO COMPANY YEAR ENDED DECEMBER 31, 1995

##### Net Sales

Net sales for 1996 were \$391.1 million, compared with \$333.0 million for the year ended December 31, 1995, an increase of 17%. Excluding the adverse effects of a stronger U.S. dollar, net sales increased by 20% in 1996. TAI accounted for 10% points of growth while the Company's core HPLC business grew by 10% points, excluding currency effects. HPLC growth was generally broad-based across geographies and end-user markets. The Company's international HPLC business sales increased by 11% and the U.S. HPLC business, which had been flat for the past several years, grew by 9% primarily from strong demand for its products in general and the impact of new product introductions. In particular, in March 1996, Waters successfully introduced its new family of Alliance™ HPLC systems which provide customers more accurate and consistent results and increased sample handling capacity, and are more compact and easier to maintain than conventional component systems.

##### Gross Profit

Gross profit for 1996 was \$239.8 million compared to \$205.8 million for 1995, an increase of \$34.0 million or 17% over the comparable period of the prior year. Excluding nonrecurring charges for revaluation of acquired inventory related to purchase accounting for acquisitions (\$6.1 million related to TAI in 1996 and \$0.9 million related to Phase Separations Limited in 1995), gross profit increased by 19% in 1996. Gross profit as a percentage of sales excluding revaluation charges increased to 62.9% in 1996 from 62.1% in 1995 reflecting increased sales volume and improved manufacturing productivity.

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#### Waters Corporation and Subsidiaries

##### Selling, General and Administrative Expenses

Selling, general and administrative expenses for 1996 were \$148.5 million, compared to \$132.7 million for 1995. As a percentage of net sales, selling, general and administrative expenses decreased to 38% for 1996 from 39.9% for 1995, reflecting continued emphasis on expense controls. The \$15.8 million or 12% increase in total expenditures primarily reflected the addition of TAI to the Company's operations.

##### Research and Development Expenses

Research and development expenses were \$20.9 million for 1996 and \$17.7 million for 1995, a \$3.2 million or 18% increase from prior year levels. Current year spending increased with new HPLC product development programs and the addition of TAI's research and development expenses in the current year. In 1996, Waters introduced its new Alliance™ systems and a variety of other new products. The Company continues to invest significantly in the development of new and improved HPLC detection, consumable and data products, as well as newly acquired thermal analysis and rheology products.

##### Goodwill and Purchased Technology Amortization

Goodwill and purchased technology amortization for 1996 was \$5.2 million, an increase of \$1.6 million from the prior year. This increase was primarily related to the acquisition of TAI.

##### Expensed In-Process Research and Development

In 1996, the Company expensed \$19.3 million of the purchase price for TAI

related to acquired in-process research and development. Generally accepted accounting principles prohibit capitalization of research and development expenditures.

#### Management Fee

There were no management fees incurred during 1996. Until November 1995, the Company paid AEA Investors, Inc. ("AEA") and Bain Capital, Inc. ("Bain") an annual fee of \$1.5 million plus out of pocket expenses for general management, financial and other corporate advisory services. The agreement was terminated for a one-time fee of \$4.0 million in conjunction with the Company's IPO.

#### Operating Income

Operating income for 1996 was \$45.8 million, a decrease of \$0.6 million from the prior year. This decrease reflects \$25.4 million of nonrecurring charges related to the TAI acquisition (\$6.1 million of revaluation of acquired inventory and \$19.3 million of expensed in-process research and development). Excluding revaluation of acquired inventory charges in 1996 and 1995, the 1996 expensed in-process research and development, the 1995 accelerated compensatory stock option vesting charge and the 1995 management fees under the terminated Management Services Agreement; operating income was \$71.2 million for the year ended December 31, 1996 and represented a \$14.9 million or 26% increase over 1995. Waters has improved operating income levels in 1996 on the strength of sales growth and continued focus on cost reduction in all operating areas.

#### Interest Expense, Net

Net interest expense decreased \$15.6 million or 51%, from \$30.3 million in 1995 to \$14.7 million in 1996. Contemporaneously with the IPO, the Company retired \$25 million of Senior Subordinated Notes, and retired all outstanding indebtedness under its senior credit facility dated August 18, 1994 ("Prior Bank Credit Agreement") with proceeds from the IPO and the New Bank Credit Agreement. In April 1996, the Company completed the successful tender for its then remaining \$75 million of Senior Subordinated Notes, financing the repurchase with borrowings under the New Bank Credit Agreement. The current year interest expense decrease reflects the reduced debt levels and more favorable interest rates under the New Bank Credit Agreement.

#### Unrealized Losses (Gains) on Future Cash Flow Hedges

During 1995, the Company periodically entered into forward exchange contracts to economically hedge a significant portion of the U.S. dollar value of its anticipated future international cash flows. Generally accepted accounting principles required that those contracts outstanding at period end be valued at current market value with the resulting unrealized gain or loss reflected in the statement of operations for the period even though they economically hedged anticipated future international cash flows. For the year ended December 31, 1995, the Company reported unrealized losses of \$1.1 million.

#### Realized (Gains) on Cash Flow Hedges

In the fourth quarter of 1995, the Company ceased to hedge anticipated future international cash flows and therefore liquidated those particular forward currency contracts. During 1995, the Company realized a \$2.3 million gain on cash flow hedges.

#### Provision for Income Taxes

The Company's effective income tax rate for 1996, excluding nonrecurring, nondeductible charges, was 19.9% compared to 18.1% in 1995. Including these nonrecurring, nondeductible charges related to the purchase of TAI, the 1996 effective income tax rate was 36.1% in 1996. The Company continued to benefit from net operating loss carryforwards which substantially offset U.S. taxable income in 1996 and 1995.

#### Income from Continuing Operations

Income from continuing operations for 1996 was \$19.9 million, compared to \$14.1 million for 1995. Excluding nonrecurring charges in both years related to the revaluation of acquired inventory, 1996 expensed in-process research and development, 1995 management fees and the 1995 accelerated compensatory stock option vesting charge, the Company generated \$45.3 million of income in 1996 compared to \$24.0 million in 1995. The improvement over the prior year was a result of sales growth, continued focus on cost reductions in all operating areas, and interest expense reduction.

#### Early Extinguishment of Debt

In the second quarter of 1996, the Company recorded an extraordinary loss of \$22.3 million related to the early extinguishment of debt in connection with the tender for its remaining \$75 million of Senior Subordinated Notes. In the fourth quarter of 1995, the Company recorded an extraordinary loss of \$12.1 million related to the early extinguishment of debt in connection with the IPO. The

Company utilized the net proceeds from its IPO, its New Bank Credit Agreement and operating cash flow to retire \$25 million of Senior Subordinated Notes and \$81.4 million of principal outstanding under the Prior Bank Credit Agreement. Company Year Ended December 31, 1995 Compared to Combined Predecessor and Company Year Ended December 31, 1994

COMPANY YEAR ENDED DECEMBER 31, 1995 COMPARED TO COMBINED PREDECESSOR AND COMPANY YEAR ENDED DECEMBER 31, 1994

#### Net Sales

Net sales for 1995 were \$333.0 million, compared with \$307.2 million for the year ended December 31, 1994, an increase of 8%. Excluding the benefits of a weaker U.S. dollar, consolidated net sales for 1995 increased by 5% compared to the prior year period. The Company's international business benefited from improved market conditions and weakening of the U.S. dollar. International sales increased by 14% and growth was geographically broad-based. The U.S. business was flat with the prior year. On a worldwide basis, pharmaceutical customer demand, which accounted for over 40% of the Company's business, grew strongly in 1995. Company revenues reflected increased demand for new products introduced in 1994. In particular, the Company experienced strong demand for its consumable Symmetry(R) column products, which provide more accurate and reproducible chromatography results. Sales growth was also generated by the Company's new Integrity™ product, which combines the separation, quantification and detection capabilities of HPLC with the identification and characterization capabilities of benchtop MS detection.

#### Gross Profit

Gross profit for 1995 was \$205.8 million, versus \$145.5 million for 1994, an increase of \$60.3 million or 41% over the comparable period of the prior year, due to significantly lower charges for revaluation of acquired inventory, higher sales volumes and productivity improvements. In the year ended December 31, 1994, the Company charged \$38.4 million to cost of sales related to the revaluation of inventory acquired as part of the Acquisition. In the year ended December 31, 1995, the Company charged \$0.9 million to cost of sales related to the revaluation of inventory acquired in conjunction with the July 1995 purchase of Phase Separations Limited. Moreover, the Company took various measures to reduce costs in conjunction with the Acquisition and as part of a restructuring in late 1994, including consolidating manufacturing plants and reducing the number of employees. Excluding revaluation of acquired inventory charges, gross profit for 1995 was \$206.8 million, versus \$184.0 million for 1994, an increase of 12% over the comparable period of the prior year and gross profit margins of 62.1% for 1995 exceeded 59.9% margins for 1994.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for 1995 were \$132.7 million, compared to \$129.7 million for 1994. As a percentage of net sales, selling, general and administrative expenses decreased to 39.9% for 1995 from 42.2% for 1994. This decrease was primarily the result of re-engineering measures adopted in connection with the Acquisition and fourth quarter restructuring in 1994. The Company eliminated excess facilities, consolidated administrative operations, reduced staffing and replaced corporate overhead with a less costly stand-alone infrastructure. Cost reduction impacts were partly offset by the increased translated dollar value of international expenses due to the weak U.S. dollar and a \$4.6 million charge for compensatory stock option expense, including a one-time charge of \$3.6 million for the accelerated vesting of certain of these options.

#### Research and Development Expenses

Research and development expenses for 1995 were \$17.7 million, \$2.5 million below prior year levels due to three factors. First, 1994 results included particularly high spending levels related to the Company's Integrity™ HPLC-MS system. Research and development spending levels for 1994 were 9% higher than those of 1993. HPLC-MS spending has been reduced to levels typical after the completion of initial development. Second, the Company eliminated certain administrative and supervisory redundancies within its research and development organization by consolidating two research and development organizations into one after the Acquisition. Third, the Company modified its product development approach in 1995 and funded slightly fewer programs with more spending per program in order to shorten time to market and improve productivity.

The Company continued to invest in those programs important to its future, including benchtop mass spectrometry detection capabilities, a new solvent delivery module, network data products and new column chemistries.

#### Expensed In-Process Research and Development

In 1994, the Company wrote off \$53.9 million of the Acquisition purchase price related to in-process research and development acquired from the Predecessor. Generally accepted accounting principles prohibit capitalization of research and development expenditures.

#### Goodwill and Purchased Technology Amortization

Goodwill and purchased technology amortization for 1995 was \$3.6 million, an increase of \$2.4 million from the prior period and primarily relates to the Acquisition on August 18, 1994.

#### Management Fee

For the year ended December 31, 1995, the Company incurred \$5.4 million of expense for financial advice and consulting and other services from AEA and Bain, an increase of \$4.8 million from the prior period under the professional services agreement dated August 18, 1994 among AEA, Bain, and the Company ("Management Services Agreement"). The increase was due primarily to a \$4.0 million charge to terminate this agreement in connection with the Company's IPO in November 1995.

#### Operating Income

Operating income for 1995 was \$46.4 million, an increase of \$110.0 million from the prior year loss. \$92.3 million of this operating income increase resulted from nonrecurring Acquisition related charges. Excluding revaluation of acquired inventory charges in 1994 and 1995, the 1995 accelerated compensatory stock option vesting charge, 1994 and 1995 management fees under the terminated Management Services Agreement and the 1994 expensed in-process research and development and restructuring charges; operating income of \$56.3 million for the year ended December 31, 1995 was \$23.5 million greater than that of the comparable period in 1994, a 72% increase.

#### Interest Expense, Net

Interest expense for 1995 was \$30.3 million, an increase of \$17.5 million as compared with \$12.8 million for 1994. This increase was due to borrowings which financed the Acquisition on August 18, 1994.

#### Unrealized Losses (Gains) on Future Cash Flow Hedges

As discussed in the Overview above, until the fourth quarter of 1995, the Company periodically entered into forward exchange contracts to economically hedge the U.S. dollar value of a portion of its anticipated future international cash flows. The Company reported unrealized losses of \$1.1 million in 1995 and unrealized gains of \$0.9 million in 1994.

#### Realized (Gains) Losses on Cash Flow Hedges

In the fourth quarter of 1995, the Company liquidated all outstanding forward exchange contracts which hedged future cash flows. For the year ended December 31, 1995, the Company realized a \$2.3 million gain on cash flow hedges contracted in prior periods to hedge its currency exposure.

#### Provision for Income Taxes

The Company's effective income tax rate for 1995 was 18.1%. The Predecessor's effective income tax rate for the period from January 1, 1994 to August 18, 1994 was 28.6%. The Company's 1995 tax rate was lower than the Predecessor's 1994 rate due to the benefit of net operating loss carryforwards from 1994 which substantially offset U.S. taxable income. The Company recorded a tax provision for the period from August 19 to December 31, 1994 while it reported operating losses as certain foreign subsidiaries generated taxable income.

#### Income from Continuing Operations

Income from continuing operations for 1995 was \$14.1 million, compared to a loss of \$77.9 million in the prior year comparable period. Non-recurring charges related to the Acquisition depressed 1994 profit levels. In addition, 1995 improvements in operating profitability were offset by higher interest expense related to the Acquisition and nonrecurring charges primarily related to the Company's IPO.

#### Early Extinguishment of Debt

In the fourth quarter of 1995, the Company recorded an extraordinary loss of \$12.1 million related to the early extinguishment of debt. The Company utilized the net proceeds from its IPO, its New Bank Credit Agreement and operating cash flow to retire \$25.0 million of Senior Subordinated Notes and \$81.4 million of principal outstanding under the Prior Bank Credit Agreement.

#### LIQUIDITY AND CAPITAL RESOURCES

Upon consummation of the Acquisition, liquidity requirements increased significantly due to debt service costs associated with borrowings.

On April 4, 1996, the Company consummated a tender offer ("Tender Offer") pursuant to which the remaining \$75 million in aggregate principal amount of its

12.75% Senior Subordinated Notes ("Senior Subordinated Notes") were purchased. The aggregate purchase price paid by the Company in connection with the Tender Offer was \$90.6 million. In the second quarter of 1996, the Company recorded an extraordinary loss of \$22.3 million related to the early extinguishment of the Senior Subordinated Notes.

The Company's new bank credit agreement ("New Bank Credit Agreement") is a revolving credit facility with maximum availability of \$300 million with the following principal terms. The loans under the New Bank Credit Agreement bear interest for each quarter at a per annum rate equal to, at the Company's option, (i) the Base Rate plus an amount which will vary between zero and 0.50% or (ii) Eurodollar Rate (as defined) plus an amount which will vary between 0.50% and 1.50%, based upon certain Company performance criteria for the previous four quarters. The availability under the New Bank Credit Agreement will decrease under certain circumstances such as in the event of asset sales and issuance of equity, will decrease by \$45 million in each of the years 1998 and 1999, and will terminate in 2000. At December 31, 1996, the interest rate on the Company's New Bank Credit Agreement was approximately 6.6%. The New Bank Credit Agreement imposes certain restrictions on the Company and certain of its subsidiaries, including restrictions on its ability to incur indebtedness, pay dividends, make acquisitions, make investments, grant liens, sell its assets and engage in certain other activities. Indebtedness under the New Bank Credit Agreement is secured by substantially all of the assets of the Company. The Company's existing availability under the New Bank Credit Agreement was \$87.5 million as of December 31, 1996. The Company was in compliance with all of its debt covenants under the New Bank Credit Agreement as of December 31, 1996.

The Company generated \$53.2 million in cash from operating activities during 1996 primarily as a result of (i) \$45.3 million in operating income before extraordinary items and non-cash charges for the revaluation of acquired inventory and expensed in-process research and development and (ii) \$16.7 million of depreciation and amortization of intangible assets, offset by (iii) a \$9.0 million increase in accounts receivable and changes in other net assets and liabilities.

Net cash of \$93.1 million used in investing activities for 1996 primarily reflected (i) the \$83.3 million used to acquire TAI and (ii) \$10.1 million used for additions to property, plant and equipment.

Net cash of \$34.7 million provided by financing activities reflected borrowings to finance the acquisition of TAI and the premium paid to tender for the Senior Subordinated Notes, offset by repayments made from the Company's operating cash flows.

In October 1996, the Company entered into a fifteen (15) month debt swap agreement with Credit Lyonnais - New York to hedge the U.S. dollar value of its investments in the net assets of certain European subsidiaries. The Company swapped \$35.4 million in notional amount of floating rate LIBOR borrowings for equivalent notional amounts in six European currencies of borrowings at fixed interest rates averaging approximately 3.2% per annum. At representative interest rates and currency exchange rates in effect at October 29, 1996, the date of the transaction, the Company lowered its annual interest costs by approximately \$1.1 million over the term of the swap agreement. The Company could also incur higher or lower principal payments over the term of the swap agreement depending on future related foreign currency rates. At currency exchange rates in effect on December 31, 1996, the principal repayment amount would have been \$35.2 million.

In June 1996, the Company entered into a three-year debt swap agreement with Bankers Trust Company to hedge the U.S. dollar value of its investment in the net assets of TAI's Japanese subsidiary. The Company swapped \$7.5 million in notional amount of floating rate LIBOR borrowings for 818 million Yen notional amount of borrowings at a fixed rate of 2.02%. At representative interest rates and currency exchange rates in effect at June 26, 1996, the effective date of the agreement, the Company lowered its annual interest costs by approximately \$0.3 million over the term of the swap agreement. The Company could also incur higher or lower principal repayments over the term of the swap agreement depending on future currency rates for the Yen. At currency exchange rates in effect on December 31, 1996, the principal repayment amount would have been \$7.1 million.

In March and April of 1996, the Company entered into several interest rate protection agreements. These agreements provide payments to the Company if the three month LIBOR rate, as defined, exceeds 6% in 1997 and 6.5% in 1998 and 1999 on aggregate borrowings of \$183 million in 1997 and \$70 million and \$30 million in 1998 and 1999, respectively. At December 31, 1996, the fair value of these agreements was \$0.7 million.

In January 1996, the Company entered into a three-year debt swap agreement with the Bank of Boston to hedge the U.S. dollar value of its investment in the net assets of its Japanese subsidiary. The Company swapped \$22 million in notional amount of floating rate LIBOR borrowings for 2.3 billion Yen notional amount of borrowings at a fixed interest rate of 1.525% per annum. At representative interest rates and currency exchange rates in effect at January 23, 1996, the effective date of the agreement, the Company lowered its annual interest costs by approximately \$0.9 million over the term of the swap. The Company could also incur higher or lower principal repayments over the term of the swap agreement depending on future currency rates for the Yen. At currency exchange rates in effect on December 31, 1996, the principal repayment amount

would have been \$20.1 million.

The Company believes that existing cash balances and cash flow from operating activities together with borrowings available under the New Bank Credit Agreement will be sufficient to fund future working capital needs, capital spending requirements and debt service requirements of the Company in the foreseeable future.

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#### Waters Corporation and Subsidiaries

##### ENVIRONMENTAL MATTERS

The Company's facilities are subject to federal, state and local environmental requirements, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. The Company does not currently anticipate any material adverse effect on its operations or financial condition as a result of its efforts to comply with, or its liabilities under, such requirements. The Company does not currently anticipate any material capital expenditures for environmental control facilities. Some risk of environmental liability is inherent in the Company's business, however, and there can be no assurance that material environmental costs will not arise in the future. In particular, the Company might incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies. Although it is difficult to predict future environmental costs, the Company does not anticipate any material adverse effect on its operations, financial condition or competitive position as a result of future costs of environmental compliance. In connection with the Acquisition, Millipore Corporation agreed to retain environmental liabilities resulting from pre-Acquisition operations of the Company's facilities.

##### RECENTLY ADOPTED ACCOUNTING STANDARDS

###### Accounting for Stock-Based Compensation

In 1996, the Company adopted the disclosure provisions of SFAS No. 123 which specifies a fair value based method of accounting for stock based compensation plans.

##### CAUTIONARY STATEMENT

Certain statements contained herein are forward looking. Many factors could cause actual results to differ from these statements, including loss of market share through competition, introduction of competing products by other companies, pressure on prices from competitors and/or customers, regulatory obstacles to new product introductions, lack of acceptance of new products by the HPLC or thermal analysis industries, changes in the healthcare market and the pharmaceutical industry, changes in distribution of the Company's products, and interest rate and foreign exchange fluctuations.

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##### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Waters Corporation:

We have audited the accompanying consolidated balance sheets of Waters Corporation and Subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1996 and December 31, 1995 and the period from August 19, 1994 to December 31, 1994. These financial statements are the responsibility of Waters Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also audited the financial statements of the Waters Chromatography Division of Millipore Corporation ("Predecessor") for the period January 1, 1994 to August 18, 1994. Our report, dated February 10, 1995 includes an explanatory paragraph which describes certain costs and expenses presented in the financial statements which represent allocations and management's estimates of the cost of services provided to the Predecessor by Millipore Corporation.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Waters Corporation and Subsidiaries as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years

ended December 31, 1996 and 1995 and the period from August 19, 1994 to December 31, 1994 in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND L.L.P.

Boston, Massachusetts  
January 22, 1997

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Waters Corporation and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 1996	December 31, 1995
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 639	\$ 3,233
Accounts receivable, less allowances for doubtful accounts of \$1,712 and \$1,513 at December 31, 1996 and 1995, respectively	88,112	76,087
Inventories	47,351	41,459
Other current assets	7,930	2,847
Net current assets of discontinued operations held for sale	-	3,694
	-----	-----
Total current assets	144,032	127,320
Property, plant and equipment, net	74,777	70,261
Other assets	36,058	29,024
Goodwill, less accumulated amortization of \$4,818 and \$2,364 at December 31, 1996 and 1995, respectively	110,635	72,491
Net long term assets of discontinued operations held for sale	-	720
	-----	-----
Total assets	\$ 365,502	\$ 299,816
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable and current portion of long term debt	\$ 1,736	\$ 1,933
Accounts payable	17,509	16,757
Deferred revenue	10,491	6,945
Accrued retirement plan contributions	2,787	6,010
Accrued income taxes	1,700	2,494
Accrued other taxes	4,951	3,900
Other current liabilities	43,631	32,896
	-----	-----
Total current liabilities	82,805	70,935
Long term debt	210,470	158,500
Redeemable preferred stock	7,153	6,232
Other liabilities	7,294	6,031
	-----	-----
Total liabilities	307,722	241,698
Stockholders' Equity:		
Common stock, par value \$0.01 per share 50,000 shares authorized, 28,923 and 28,796 shares issued and outstanding at December 31, 1996 and 1995, respectively	289	288
Additional paid-in capital	145,717	145,318
Deferred stock option compensation	(826)	(1,076)
Accumulated deficit	(87,808)	(85,403)
Translation adjustments	408	(605)
Minimum pension liability adjustment	-	(404)
	-----	-----
Total stockholders' equity	57,780	58,118
	-----	-----
Total liabilities and stockholders' equity	\$ 365,502	\$ 299,816
	=====	=====

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

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Consolidated Statements of Operations

Waters Corporation and Subsidiaries

(In thousands, except per share data)	Company			Predecessor
	Year Ended December 31, 1996	Year Ended December 31, 1995	August 19, 1994 to December 31, 1994	January 1, 1994 to August 18, 1994
Net sales	\$ 391,113	\$ 332,972	\$ 131,057	\$ 176,097
Cost of sales	145,254	126,216	49,740	73,446

Source: WATERS CORP /DE/, 10-K405, March 31, 1997

Revaluation of acquired inventory	6,100	925	38,424	-
Gross profit	239,759	205,831	42,893	102,651
Selling, general and administrative expenses	148,513	132,746	44,522	85,216
Research and development expenses	20,898	17,681	6,790	13,399
Goodwill and purchased technology amortization	5,219	3,629	1,227	-
Expensed in-process research and development	19,300	-	53,918	-
Management fee	-	5,393	552	-
Restructuring charge	-	-	3,500	-
Operating income (loss)	45,829	46,382	(67,616)	4,036
Interest expense, net	14,740	30,315	12,011	828
Unrealized losses (gains) on future cash flow hedges	-	1,142	(923)	-
Realized (gains) on cash flow hedges	-	(2,317)	-	-
Income (loss) from continuing operations before income taxes	31,089	17,242	(78,704)	3,208
Provision for income taxes	11,230	3,129	1,487	916
Income (loss) from continuing operations	19,859	14,113	(80,191)	2,292
Income (loss) from discontinued operations, net of tax effect	-	-	787	(448)
Estimated (loss) on disposal of discontinued operations	-	-	(8,000)	-
Income (loss) before extraordinary item	19,859	14,113	(87,404)	1,844
Extraordinary (loss) on early retirement of debt	(22,264)	(12,112)	-	-
Net (loss) income	(2,405)	2,001	(87,404)	\$1,844
Less: accretion of and 6% dividend on Preferred stock	921	902	330	=====
Net (loss) income available to common stockholders	\$ (3,326)	\$ 1,099	\$ (87,734)	=====
(Loss) income per common share:				
Income (loss) per common share from continuing operations	\$ .60	\$ .54	\$ (3.38)	
(Loss) per common share from discontinued operations	-	-	(.30)	
Extraordinary (loss) per common share	(.71)	(.49)	-	
Net (loss) income per common share	\$ (.11)	\$ .05	\$ (3.68)	
Weighted average number of common shares	31,628	24,582	23,852	=====

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

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#### Consolidated Statements of Cash Flows

#### Waters Corporation and Subsidiaries

	Company			Predecessor
	Year Ended December 31, 1996	Year Ended December 31, 1995	August 19, 1994 to December 31, 1994	January 1, 1994 to August 18, 1994
(In thousands, except per share data)				
Cash flows from operating activities:				
Net (loss) income	\$ (2,405)	\$ 2,001	\$ (87,404)	\$ 1,844
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Net (income) loss from discontinued operations	-	-	(787)	448
Unrealized losses (gains) on future cash flow hedges	-	1,142	(923)	-
Estimated loss on disposal of discontinued operations	-	-	8,000	-
Deferred income taxes	(4,200)	-	-	-
Depreciation and amortization	9,334	7,709	2,501	5,197
Amortization of capitalized software and intangible assets	7,375	6,065	1,893	1,126
Amortization of debt issuance costs	1,055	2,731	993	-
Compensatory stock option expense	250	4,565	-	-
Expensed in-process research and				

Source: WATERS CORP /DE/, 10-K405, March 31, 1997



development	19,300	-	53,918	-
Extraordinary loss on early retirement of debt	22,264	12,112	-	-
Change in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(8,981)	10,212	(38,127)	18,186
Decrease (increase) in inventories	5,430	5,583	44,324	(2,492)
(Increase) decrease in other current assets	(410)	(1,073)	970	(2,248)
Decrease (increase) in other assets	1,218	(1,277)	(568)	453
Increase (decrease) in accounts payable and other current liabilities	4,992	(1,661)	16,397	1,583
Increase (decrease) in deferred revenue	2,541	(32)	(317)	1,380
(Decrease) increase in accrued retirement plan contributions	(5,329)	1,637	109	(809)
Increase (decrease) in other liabilities	3,283	(4,511)	5,012	503
Net cash provided by continuing operations	55,717	45,203	5,991	25,171
Net cash provided by discontinued operations	-	1,039	1,418	478
Net cash provided by operating activities	55,717	46,242	7,409	25,649
Cash flows from investing activities:				
Additions to property, plant and equipment	(10,064)	(6,260)	(1,524)	(3,901)
Software capitalization and other intangibles	(3,758)	(3,618)	(667)	(2,034)
Payment to acquire predecessor net assets	-	-	(310,456)	-
Business acquisitions, net of cash acquired	(83,349)	(7,469)	-	-
Loans to officers	(425)	(2,062)	-	-
Realized loss on contracts hedging net asset value	-	(1,457)	-	-
Proceeds from sale of discontinued operations	4,497	6,477	-	-
Net cash (used in) investing activities by continuing operations	(93,099)	(14,389)	(312,647)	(5,935)
Net investing activities of discontinued operations	-	(154)	(594)	(508)
Net cash (used in) investing activities	(93,099)	(14,543)	(313,241)	(6,443)
Cash flows from financing activities:				
Proceeds from long term borrowings	-	84,286	275,813	-
Proceeds from issuance of common stock	-	86,152	66,628	-
Repayment (issuance) of notes and accrued interest	-	5,309	(5,055)	-
Net borrowings (repayment) of bank debt	126,902	(175,000)	-	-
Retirement of Senior Subordinated Notes	(91,219)	(28,188)	-	-
Transactions with parent company	-	-	-	(18,739)
Payments for debt issuance costs	(2,282)	(2,211)	(15,111)	-
Dividend paid	-	(16,195)	-	-
Proceeds from stock options exercised	1,322	-	-	-
Net cash provided by (used in) financing activities	34,723	(45,847)	322,275	(18,739)
Effect of exchange rate changes on cash and cash equivalents	65	642	(171)	-
(Decrease) increase in cash and cash equivalents	(2,594)	(13,506)	16,272	467
Cash and cash equivalents at beginning of period	3,233	16,739	467	-
Cash and cash equivalents at end of period	\$ 639	\$ 3,233	\$ 16,739	\$ 467
Supplemental cash flow information:				
Income taxes paid	\$ 3,401	\$ 1,924	\$ 217	\$ -
Interest paid	\$ 15,941	\$ 30,370	\$ 7,247	\$ -

</TABLE>

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

Consolidated Statements of Stockholders' Equity

Waters Corporation and Subsidiaries

(In thousands)	Common Stock	Additional Paid-In Capital	Deferred Stock Option Compensation	Warrants	Notes Receivable	Accumulated Deficit	Cumulative Transaction Adjustments
Initial capital contribution at August 19, 1994 (restated)	\$ 215	\$ 67,824	\$ -	\$ 3,200	\$ (4,925)	\$ -	\$ -
Net loss for the period August 19, 1994 to December 31, 1994	-	-	-	-	-	(87,404)	-
Translation adjustment for the period August 19, 1994 to December 31, 1994	-	-	-	-	-	-	(1,120)
Accretion of preferred stock	-	(108)	-	-	-	-	-
Interest income on notes receivable	-	-	-	-	(130)	-	-
Dividend payable on preferred stock	-	(222)	-	-	-	-	-
Balance December 31, 1994	215	67,494	-	3,200	(5,055)	(87,404)	(1,120)
Net income for the year ended December 31, 1995	-	-	-	-	-	2,001	-
Translation adjustment for the year ended December 31, 1995	-	-	-	-	-	-	515
Proceeds from stock offering	63	86,089	-	-	-	-	-
Accretion of preferred stock	-	(301)	-	-	-	-	-
Interest income on notes receivable	-	-	-	-	(254)	-	-
Dividend payable on preferred stock	-	(600)	-	-	-	-	-
Repayment of notes receivable	-	-	-	-	5,309	-	-
Minimum pension liability adjustment	-	-	-	-	-	-	-
Warrants exercised	10	3,190	-	(3,200)	-	-	-
Compensatory stock options issued	-	5,641	(5,641)	-	-	-	-
Compensatory stock option expense	-	-	4,565	-	-	-	-
Dividend paid	-	(16,195)	-	-	-	-	-
Balance December 31, 1995	288	145,318	(1,076)	-	-	(85,403)	(605)
Net (loss) for the year ended December 31, 1996	-	-	-	-	-	(2,405)	-
Translation adjustment for the year ended December 31, 1996	-	-	-	-	-	-	1,013
Accretion of preferred stock	-	(321)	-	-	-	-	-
Dividend payable on preferred stock	-	(600)	-	-	-	-	-
Minimum pension liability adjustment	-	-	-	-	-	-	-
Compensatory stock option expense	-	-	250	-	-	-	-
Stock options exercised	1	1,320	-	-	-	-	-
Balance December 31, 1996	\$ 289	\$ 145,717	\$ (826)	\$ -	\$ -	\$ (87,808)	\$ 408

(In thousands)	Minimum Pension Liability Adjustment	Total
Initial capital contribution at August 19, 1994 (restated)	\$ -	\$ 66,314
Net loss for the period August 19, 1994 to December 31, 1994	-	(87,404)
Translation adjustment for the period August 19, 1994 to December 31, 1994	-	(1,120)
Accretion of preferred stock	-	(108)
Interest income on notes receivable	-	(130)
Dividend payable on preferred stock	-	(222)
Balance December 31, 1994	-	(22,670)
Net income for the year ended December 31, 1995	-	2,001
Translation adjustment for the year ended December 31, 1995	-	515
Proceeds from stock offering	-	86,152
Accretion of preferred stock	-	(301)
Interest income on notes receivable	-	(254)
Dividend payable on preferred stock	-	(600)
Repayment of notes receivable	-	5,309
Minimum pension liability adjustment	(404)	(404)
Warrants exercised	-	-
Compensatory stock options issued	-	-
Compensatory stock option expense	-	4,565
Dividend paid	-	(16,195)
Balance December 31, 1995	404	58,118
Net (loss) for the year ended December 31, 1996	-	(2,405)
Translation adjustment for the year ended December 31, 1996	-	1,013
Accretion of preferred stock	-	(321)
Dividend payable on preferred stock	-	(600)
Minimum pension liability adjustment	404	404
Compensatory stock option expense	-	250
Stock options exercised	-	1,321

Balance December 31, 1996

\$ - \$ 57,780  
=====

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

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Waters Corporation and Subsidiaries

Notes to Consolidated Financial Statements  
(In thousands, except per share data)

## 1. DESCRIPTION OF BUSINESS

### Organization and Basis of Presentation

Waters Corporation ("Waters" or the "Company") is a holding company which owns all and only the common stock of Waters Technologies Corporation. Waters is the world's largest manufacturer, distributor and provider of high performance liquid chromatography ("HPLC") instruments, chromatography columns and other consumables, and related service. HPLC, the largest product segment of the analytical instrument market, 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. With its acquisition of TA Instruments, Inc. ("TAI") in May 1996, the Company is also the world's leader in thermal analysis instrumentation products which are used in a complementary fashion to analyze polymers.

In November 1995, the Company completed its initial public offering ("IPO"). Prior to this date, the Company was known as WCD Investors, Inc. and Waters Technologies Corporation was known as Waters Corporation. Waters acquired substantially all of the assets ("Acquisition") of the Waters Chromatography Division ("Predecessor") of Millipore Corporation ("Millipore") on August 18, 1994. Pursuant to the purchase method of accounting, acquired assets and liabilities were revalued to their fair market value. The excess of the purchase price over the fair market value of the net assets acquired was recorded as goodwill. Because of the revaluation of the assets and liabilities and its related impact on the statement of operations, the financial statements of the Predecessor for the periods prior to August 19, 1994 are not strictly comparable to those of the Company subsequent to that date. Therefore, Predecessor financial statements have been presented separately from Company financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the dates of the financial statements and (iii) the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### Principles of Consolidation

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.

### Translation of Foreign Currencies

For most of the Company's foreign operations, assets and liabilities are translated into U. S. dollars at exchange rates prevailing on the balance sheet date while revenues and expenses are translated at average exchange rates prevailing during the period. Any resulting translation gains or losses are included in translation adjustments in the consolidated balance sheet.

### Cash and Cash Equivalents

Cash equivalents primarily represent highly liquid investments, with original maturities of 90 days or less, in repurchase agreements and money market funds which are convertible to a known amount of cash and carry an insignificant risk of change in value. The Company has periodically maintained balances in various operating accounts in excess of federally insured limits.

### Concentration of Credit Risk

The Company sells its products to a significant number of large and small customers throughout the world, with over 40% of 1996 net sales to the pharmaceutical industry. None of the Company's individual customers account for more than two percent of annual Company sales. The Company performs continuing credit evaluation of its customers and generally does not require collateral, but, in certain circumstances may require letters of credit. Historically, the Company has not experienced significant bad debt losses.

#### Inventory

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

#### Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Prior to the Acquisition, the Predecessor's operations were included in the consolidated tax returns of Millipore and all related income tax payments were made by Millipore.

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### Waters Corporation and Subsidiaries

#### Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Expenditures for maintenance and repairs are charged to expense while the costs of significant improvements are capitalized. Depreciation is provided using straight line methods over the following estimated useful lives; leasehold improvements - lives of the related leases, buildings - 33 years, and production and other equipment - 5 to 10 years. Upon retirement or sale, the cost of assets disposed and the related accumulated depreciation are eliminated from the balance sheet and related gains or losses are reflected in income.

#### Software Development Costs

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standard No. 86. Capitalized costs are amortized to cost of sales on a straight-line basis over the estimated useful lives of the related software products, generally three to five years. Capitalized software included in other assets, net of accumulated amortization, was \$10,379 and \$8,418 at December 31, 1996 and 1995, respectively.

#### Purchased Technology and Goodwill

Purchased technology is recorded at its fair market value as of the acquisition date and is amortized over its estimated useful life, ranging from four to fifteen years for current purchased technology components. Goodwill is amortized on a straight-line basis over its useful life, 40 years for current goodwill components. Impairment of purchased technology and goodwill is measured on the basis of whether anticipated future undiscounted operating cash flows expected from the acquired business will recover the recorded respective intangible asset balances over the remaining amortization period. At December 31, 1996, no such impairment of assets was indicated. Purchased technology included in other assets was \$6,805 and \$8,667, net of accumulated amortization of \$4,343 and \$2,482, at December 31, 1996 and 1995, respectively.

#### Debt Issuance Costs

Debt issuance costs are amortized over the life of the related debt using the effective interest method. At December 31, 1996 and 1995, debt issuance costs included in other assets amounted to \$3,551 and \$7,874, net of accumulated amortization of \$935 and \$912, respectively.

#### Revenue Recognition

Sales of products and services are recorded based on product shipment and performance of service, respectively. Proceeds received in advance of product shipment or performance of service are recorded as deferred revenue in the balance sheet.

#### Product Warranty Costs

The Company provides for estimated warranty costs at the point of sale.

#### Field Service Expenses

All expenses of the Company's field service organization are included in selling, general and administrative expenses.

#### Reclassification

Certain amounts in previous years' financial statements have been reclassified to conform to current presentation.

#### Income (Loss) Per Share

Income (loss) per common share is based on the weighted average number of common shares and common share equivalents outstanding during the periods presented. Common share equivalents result from outstanding options and warrants to purchase common stock. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, using the treasury stock method until shares are actually issued, all common share equivalents issued and options granted by the

Company at a price less than the IPO price during the twelve months preceding the IPO date in November 1995 have been included in computing income (loss) per common share for 1995 and 1994. Accretion of and cumulative dividends on preferred stock have been included in computing income (loss) per share.

Supplemental unaudited pro forma income (loss) per common share amounts, calculated as if the IPO had taken place at the beginning of the respective periods, were \$0.35 and \$(2.75) for the year ended December 31, 1995 and for the period August 19, 1994 to December 31, 1994,

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Waters Corporation and Subsidiaries

respectively. These calculations, required by APB Opinion No. 15 "Earnings per Share", make supplemental pro forma adjustments to data as reported for the repayment of debt and common stock issued due to the IPO, and not for other nonrecurring items. The calculations are as follows:

	1995 (Unaudited)	1994 (Unaudited)
Net income (loss) available to common stockholders, as reported	\$ 1,099	\$ (87,734)
Pro forma adjustments for interest expense, assuming that the IPO occurred at the beginning of the period	9,407	4,820
Net income (loss) used for supplemental pro forma income (loss) per common share calculation	\$ 10,506	\$ (82,914)
Weighted average number of common shares outstanding, as reported	24,582	23,852
Adjustment necessary assuming shares issued in the IPO were outstanding for the full period	5,529	6,250
Weighted average common shares in supplemental pro forma income (loss) per common share calculation	30,111	30,102
Supplemental pro forma income (loss) per common share	\$ .35	\$ (2.75)

3. Business Combinations

In May 1996, the Company purchased TAI for \$83,349 excluding transaction costs. The acquisition was financed through borrowings under the current bank credit agreement. TAI develops, manufactures, sells and services thermal analysis and rheology instruments which are used for the physical characterization of polymers and related materials. Thermal analysis and rheology are among the most prevalent techniques employed in the analysis of polymers and other organic/inorganic materials. TAI is the global market leader in the field of thermal analysis. Net sales for TAI were approximately \$14,000 for the period from January 1, 1996 to April 30, 1996 and \$47,000 in 1995. The acquisition was accounted for by the purchase method and the excess purchase price was allocated to the assets and liabilities of TAI based upon their estimated fair values. Principle components of this excess amount included the revaluation of certain inventories (\$6,100), in-process research and development projects (\$19,300) and goodwill (\$43,780). The technological feasibility of in-process research and development projects had not yet been established at the date of acquisition and had no alternative future use.

The following unaudited Pro Forma results of operations for the years ended December 31, 1996 and December 31, 1995 give effect to the TAI acquisition as if the transaction had occurred at the beginning of each such period. The financial data are based on the historical consolidated financial statements for the Company and TAI and the assumptions and adjustments made upon the TAI acquisition. The Pro Forma results of operations exclude the 1996 charges for the revaluation of acquired inventory and expensed in-process research and development associated with the acquisition and do not (i) purport to represent what the Company's results would have been if the TAI acquisition had occurred as of the beginning of the periods, or (ii) what such results will be for any future periods. The financial data are based upon assumptions that the Company believes are reasonable and should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto included elsewhere in this report.

	Pro Forma Results For the Year Ended December 31, 1996	December 31, 1995
Net sales	\$ 405,308	\$ 379,569
Income from continuing operations	44,786	16,867
Net income	22,522	4,755
Income per common share from continuing operations	\$ 1.39	\$ 0.65
Net income per common share	\$ 0.68	\$ 0.16

In July 1995, the Company purchased Phase Separations Limited, a United Kingdom company, for approximately \$7,500. Phase Separations Limited is a manufacturer of chromatography consumable products. This acquisition was also

accounted for by the purchase method.

The total purchase price paid to acquire the Predecessor on August 18, 1994 was approximately \$358,000, including related costs, and exceeded the historical book value of the net assets acquired. The Acquisition was accounted for by the purchase method and the excess purchase price was allocated to the assets and liabilities of the Predecessor based upon their estimated fair values. Principal components of this excess amount included the revaluation of certain inventories (\$38,424), in-process research and development projects (\$53,918), purchased technology (\$10,748) and goodwill (\$70,022). The technological feasibility of in-process research and development projects had not yet been established at the date of acquisition and had no alternative future use.

Waters Corporation and Subsidiaries

4. DISCONTINUED OPERATIONS

On December 31, 1994, the Company announced a plan to sell its process mass spectrometry business. The largest operation was sold in July 1995 for proceeds, net of associated costs, of approximately \$6,500. Remaining operations were sold in January 1996 for proceeds, net of associated costs, of approximately \$4,500. The results of this business prior to 1995 have been classified as discontinued operations in the consolidated statements of operations. A reserve of \$8,000 was recorded in December 1994 for the estimated loss on disposition of this business. This reserve was reduced by actual losses for the year ended December 31, 1995 which aggregated \$546. The net assets of the business had been segregated in the 1995 consolidated balance sheet.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 1996	December 31, 1995
Land	\$ 3,092	\$ 3,092
Leasehold improvements	1,083	1,206
Buildings and improvements	29,171	28,653
Production and other equipment	53,414	43,499
Construction in progress	7,746	3,965
	94,506	80,415
Less: accumulated depreciation and amortization	(19,729)	(10,154)
Property, plant and equipment, net	\$ 74,777	\$ 70,261

6. Inventories

Inventories are classified as follows:

	December 31, 1996	December 31, 1995
Raw material	\$ 14,860	\$ 10,719
Work in progress	6,180	4,201
Finished goods	26,311	26,539
Total inventories	\$ 47,351	\$ 41,459

7. Debt

On August 18, 1994, the Company issued \$100,000 of 12.75% Senior Subordinated Notes, series B due 2004 ("Senior Subordinated Notes") and entered into an original bank credit agreement ("Prior Bank Credit Agreement") which provided for term loans of up to \$205,000. As required by the Prior Bank Credit Agreement, the Company also entered into an interest rate protection agreement on borrowing levels of \$100,000 in September 1994. As explained below, all of these arrangements were subsequently terminated and refinanced.

Contemporaneously with the IPO, the Company retired all outstanding indebtedness under the Prior Bank Credit Agreement with net proceeds from the IPO and bank financing under a new bank credit agreement ("New Bank Credit Agreement"). The New Bank Credit Agreement is a revolving credit facility with maximum availability of \$175,000 on the IPO date which was subsequently increased to \$300,000 in March 1996. The loans under the New Bank Credit Agreement bear interest for each calendar quarter at a per annum rate equal to, at the Company's option, (i) a floating rate based on the prime rate plus an amount which will vary between zero and 0.50% or (ii) the applicable Eurodollar rate plus an amount which will vary between 0.50% and 1.50%, based upon certain Company performance criteria for the previous four quarters. Amounts available under the New Bank Credit Agreement will decrease under certain circumstances and, in any case, by \$45,000 in each of 1998 and 1999. The agreement terminates on November 22, 2000. Borrowings under the New Bank Credit Agreement are collateralized by substantially all of the Company's assets.

On December 29, 1995, the Company redeemed \$25,000 of Senior Subordinated Notes principal for a call premium of \$3,188. In connection with the early retirement of the Prior Bank Credit Agreement and the \$25,000 of Senior Subordinated Notes principal, the Company recorded a \$12,112 extraordinary loss in 1995 for the write-off of associated unamortized debt issuance costs, the call premium and the associated interest rate protection premium.

On April 4, 1996, the Company consummated a tender offer ("Tender Offer") to repurchase the remaining \$75,000 in principal amount of 12.75% Senior Subordinated Notes. The aggregate purchase price paid by the Company in connection with the Tender Offer was \$90,600. The Company funded this redemption through additional borrowings under the New Bank Credit Agreement. In the second quarter of 1996, the Company recorded an extraordinary loss of \$ 22,264 related to the early extinguishment of the Senior Subordinated Notes.

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#### Waters Corporation and Subsidiaries

Under its various loan agreements, the Company is required to meet certain covenants, including certain restrictions on dividend payments, none of which is considered restrictive to the operations of the Company. The Company was in compliance with all of its debt covenants under the New Bank Credit Agreement as of December 31, 1996.

At December 31, 1996, the Company had aggregate borrowings outstanding under the New Bank Credit Agreement of \$212,460 and approximately \$87,540 in additional borrowings available. The weighted average interest rate on the New Bank Credit Agreement borrowings was approximately 6.6% at December 31, 1996. At December 31, 1995, the interest rate on the \$75,000 principal amount of Senior Subordinated Notes outstanding was fixed at 12.75% and the weighted average interest rate on the New Bank Credit Agreement borrowings was approximately 6.7%. The Company's foreign subsidiaries had available short-term lines of credit totaling \$8,545 at December 31, 1996 and December 31, 1995. At December 31, 1996 and December 31, 1995, borrowings amounted to \$1,990 at a weighted average interest rate of approximately 7.1% and \$1,933 at a weighted average interest rate of approximately 4.0%, respectively.

In January 1996, the Company entered into a three-year debt swap agreement with the Bank of Boston to hedge the U.S. dollar value of its investment in the net assets of its Japanese subsidiary. The Company swapped \$22,000 in notional amount of floating rate LIBOR borrowings for 2,300,000 Yen notional amount of borrowings at a fixed interest rate of 1.525% per annum. At representative interest rates and currency exchange rates in effect at January 23, 1996, the effective date of the agreement, the Company lowered its annual interest costs by approximately \$900 over the term of the swap agreement. The Company could also incur higher or lower principal repayments over the term of the swap agreement. At currency exchange rates in effect on December 31, 1996, the principal repayment amount would have been \$20,114.

In March and April 1996, the Company entered into several interest rate protection agreements. These agreements provide payments to the Company if the three month LIBOR rate, as defined, exceeds 6% in 1997 and 6.5% in 1998 and 1999 on aggregate borrowings of \$183,000 in 1997 and \$70,000 and \$30,000 in 1998 and 1999, respectively. At December 31, 1996, the fair value of these agreements was \$741.

In June 1996, the Company entered into a three-year debt swap agreement with Bankers Trust Company to hedge the U.S. dollar value of its investment in the net assets of TAI's Japanese subsidiary. The Company swapped \$7,500 in notional amount of floating rate LIBOR borrowings for 817,500 Yen notional amount of borrowings at a fixed interest rate of 2.02% per annum. At representative interest rates and currency exchange rates in effect at June 26, 1996, the effective date of the agreement, the Company lowered its annual interest costs by approximately \$266 over the term of the swap agreement. The Company could also incur higher or lower principal payments over the term of the swap agreement. At currency exchange rates in effect on December 31, 1996, the principal repayment amount would have been \$7,057.

In October 1996 the Company entered into a fifteen (15) month debt swap agreement with Credit Lyonnais - New York to hedge the U.S. dollar value of its investments in the net assets of certain European subsidiaries. The Company swapped \$35,400 in notional amount of floating rate LIBOR borrowings for equivalent notional amounts in six European currencies of borrowings at fixed interest rates averaging approximately 3.2% per annum. At representative interest rates and currency exchange rates in effect at October 29, 1996, the date of the transaction, the Company lowered its annual interest costs by approximately \$1,100 over the term of the swap agreement. The Company could also incur higher or lower principal payments over the term of the swap agreement. At currency exchange rates in effect on December 31, 1996, the principal repayment amount would have been \$35,229.

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#### Waters Corporation and Subsidiaries

## 8. Income Taxes

Income tax data for 1996, 1995, and 1994 follow in the tables below:

(In thousands)	Company			Predecessor
	Year Ended December 31, 1996	Year Ended December 31, 1995	August 19, 1994 to December 31, 1994	January 1, 1994 to August 18, 1994
The components of income (loss) from continuing operations before income taxes were as follows:				
Domestic	\$ 33,534	\$ 18,322	\$ (77,320)	\$15,953
Foreign	(2,445)	(1,080)	(1,384)	(12,745)
<b>Total</b>	<b>\$ 31,089</b>	<b>\$ 17,242</b>	<b>\$ (78,704)</b>	<b>\$ 3,208</b>
The components of the current and deferred income tax provision on continuing operations were as follows:				
Current	\$ 15,430	\$ 3,129	\$ 1,487	\$ 916
Deferred	(4,200)	-	-	-
<b>Total</b>	<b>\$ 11,230</b>	<b>\$ 3,129</b>	<b>\$ 1,487</b>	<b>\$ 916</b>
The components of the provision for income taxes on continuing operations were as follows:				
Federal	\$ 4,576	\$ -	\$ -	\$ 916
State	900	300	129	-
Foreign	5,754	2,829	1,358	-
<b>Total</b>	<b>\$ 11,230</b>	<b>\$ 3,129</b>	<b>\$ 1,487</b>	<b>\$ 916</b>
The differences between income taxes computed at the United States statutory rate and the provision for income taxes are summarized as follows:				
Federal tax computed at U.S. statutory income tax rate	\$ 10,881	\$ 6,035	\$ (27,546)	\$ 1,123
State income tax, net of federal income tax benefit	585	300	(5,156)	-
Deferred tax assets not benefited (benefited)	(16,823)	(6,271)	35,080	-
Net effect of foreign operations	7,339	2,858	-	-
Nondeductible acquisition costs	8,890	-	-	-
Other	358	207	(891)	(207)
<b>Provision for income taxes</b>	<b>\$ 11,230</b>	<b>\$ 3,129</b>	<b>\$ 1,487</b>	<b>\$ 916</b>
The tax effects of temporary differences and carryforwards which gave rise to deferred tax liabilities and deferred tax (assets) were as follows:				
Acquired net operating loss carryforwards	\$ (3,995)	\$ -	\$ -	\$ -
Estimated loss on disposal of discontinued operations	(991)	(1,900)	(3,200)	-
Goodwill amortization	(11,731)	(12,808)	(20,677)	-
Depreciation and capitalized software	3,919	3,357	-	77
Deferred financing	(146)	(2,569)	-	-
Deferred compensation	(2,344)	(1,840)	-	-
Tax credit carryforwards	(1,221)	(1,221)	-	-
Other	(3,610)	513	189	(77)
Net operating loss carryforward	(16,905)	(17,704)	(11,392)	-
Valuation allowance	32,824	34,172	35,080	-
<b>Total deferred taxes</b>	<b>\$ (4,200)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

### Waters Corporation and Subsidiaries

At December 31, 1996 the Company had a U.S. net operating loss carryforward of approximately \$35,000 which begins to expire in the year 2009. The Company's ability to use the net operating loss carryforward is limited under Internal Revenue Code Section 382, however the company feels such limitation is not material. The Company had foreign net operating loss carryforwards of approximately \$8,000, some of which begin to expire in the year 2000 and some of unlimited duration. The goodwill amortization represents the difference between the book and tax treatment for both goodwill and in-process research and development. The deferred tax asset of \$4,200 is included as part of other current assets in the consolidated balance sheet. Realization of deferred tax assets is contingent upon future taxable income. The valuation allowance relates



to the uncertainty of realizing the deferred tax assets. The tax benefit of the acquired net operating loss carryforwards of \$9,986 will reduce goodwill but not tax expense when it is realized.

The Company's effective tax rate before the nondeductible acquisition related expenses for the twelve month period ended December 31, 1996 was 19.9%. The Company benefited from net operating loss carryforwards which offset U.S. taxable income in 1996.

#### 9. Leases

Lease agreements, expiring at various dates through 2019, cover buildings, office equipment and automobiles. Rental expense was approximately \$6,474 in 1996, \$5,684 in 1995 and \$3,262 in 1994. In 1994, 1995 and 1996, the Company's rent expense included amounts previously allocated to and not classified as direct rent expense of the Predecessor. Future minimum rents payable as of December 31, 1996 under non-cancelable leases with initial terms exceeding one year were as follows:

-----	
1997	\$5,824
1998	4,544
1999	3,352
2000	1,950
2001	1,388
thereafter	2,362

#### 10. Common Stock

Prior to the IPO, the authorized common stock of the Company consisted of 919 shares of Class A, 10 shares of Class B and 194 shares of Class C common stock. All general voting power was vested in the holders of the Class B common stock. The holders of the Class A, Class B and Class C common stock were entitled to receive dividends and distributions from the current and accumulated earnings and profits, as declared by the Board of Directors, in proportion to the number of shares of common stock held. In September 1995, the Company declared and paid a \$16,195 distribution to its securityholders.

Contemporaneously with the IPO, the Company completed a reclassification in which each share of Class A, Class B, and Class C common stock was converted into a specified number of shares of a single class of Common Stock ("Reclassification"). At the same time, the authorized number of shares of common stock was increased to 50,000 shares with a par value of \$.01 per share. Holders of Common Stock are entitled to one vote per share. In November 1995, the Company issued 6,250 shares of Common Stock in an IPO for net proceeds of \$86,152.

#### 11. Redeemable Preferred Stock

On August 18, 1994, as part of the consideration for the Acquisition, the Company authorized and issued one hundred shares of Redeemable Preferred Stock ("Preferred Stock") with a par value of \$.01 per share to Millipore. The Preferred Stock has a liquidation value of \$10,000 and earns an annual 6% cumulative dividend based upon the liquidation value. Any accumulated but unpaid dividends are added to the liquidation value. The Company may, at any time, redeem the Preferred Stock at the current liquidation value but in no event later than August 18, 2006. The Preferred Stock was recorded at its estimated fair value of \$5,000 on the date of issuance. The excess of the liquidation value over the fair market value is being accreted by periodic charges to additional paid-in capital from the date of issue through August 18, 2006. During the years ended December 31, 1996, 1995, and 1994, \$321, \$301, and \$108, respectively, were charged against additional paid-in capital to reflect the accretion from fair value to the liquidation value and \$600, \$600 and \$222, respectively, were charged against additional paid-in capital for the accumulated but unpaid dividends. At December 31, 1996, the liquidation preference was \$11,422.

#### 12. Stock Compensation and Purchase Plans

The Company has four stock-based compensation plans, which are described below. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan under SFAS 123. In adopting SFAS 123 in 1996, the Company elected footnote disclosure only. Had compensation cost for the Company's four stock-based compensation plans been recorded based on the fair value of awards at grant date consistent with the method prescribed by SFAS 123, the Company's net income and earnings per share would have been changed to the pro forma amounts indicated below:

		1996	1995
-----			
Net (loss) income available to common stockholders	As reported	\$ (3,326)	\$ 1,099

	SFAS 123 fair value, net of taxes	(1,174)	(487)
	APB 25 offset, net of taxes	176	493
	Pro forma	\$ (4,324)	\$ 1,105
=====			
Net (loss) income per common share	As reported	\$ (0.11)	\$0.05
	SFAS 123 fair value, net of taxes	(0.04)	(0.02)
	APB 25 offset, net of taxes	0.01	0.02
	Pro forma	\$ (0.14)	\$ 0.05
=====			

The above initial phase-in period pro forma disclosures under SFAS 123 are not likely to be representative of the effects on reported net income for future years.

The fair value of each option grant under SFAS 123 is estimated on the date of grant using the Black-Scholes option-pricing model. The following table presents the annualized weighted-average values of the significant assumptions used to estimate the fair values of the options:

Options issued	358	663
Risk-free interest rate	6.4%	7.0%
Expected life in years	7.4	7.5
Expected volatility	0.674	0.6928
Expected dividends	0	0

The following table details the weighted-average exercise price and fair values of options on the date of grant where:

Option exercise prices are less than the market price		
Exercise price		\$ 9.50
Fair value		\$10.51
Option exercise prices are equal to the market price		
Exercise price		\$ 4.07
Fair value		\$ 3.07
Option exercise prices exceed the market price		
Exercise price	\$ 34.21	\$12.89
Fair value	\$ 20.89	\$ 2.16

The following table details the weighted-average remaining contractual life of options outstanding at December 31, 1996 by range of exercise prices:

Exercise Price Range	Number of Shares Outstanding	Exercise Price	Remaining Contractual Life of Options Outstanding
\$ 0.00 to \$ 5.00	1,077	\$ 4.00	7.8 Years
\$ 5.01 to \$10.00	1,307	\$ 9.50	7.9 Years
\$10.01 to \$20.00	2,520	\$16.28	7.7 Years
\$20.01 to \$40.00	358	\$34.21	9.3 Years
	-----		
	5,262		
	=====		

#### Stock Option Plans

On May 7, 1996, the Company's shareholders approved the 1996 Long-Term Incentive Plan ("1996 Plan"), which provides for the granting of 1,000 shares of Common Stock, consisting of stock options, stock appreciation rights ("SARs"), restricted stock, and other types of awards. Under the 1996 Plan, the exercise price for stock options may not be less than the fair market value of the underlying stock at the date of grant. The 1996 Plan is scheduled to terminate on May 7, 2006, unless extended for a period of up to five years by action of the Board of Directors. Options granted may be either incentive stock options or non-qualified options. Options generally will expire no later than ten years after the date on which they are granted and will become exercisable as directed by the Compensation Committee of the Board of Directors. An SAR may be granted alone or in conjunction with an option or other award. No SARs, restricted stock, or other types of awards were outstanding as of December 31, 1996.

The Company's 1994 Stock Option Plan ('1994 Plan') provided for the granting of 205 common stock options to certain key employees of Waters. Stock options under the 1994 Plan allowed the purchase of Class A Common Stock of the Company. Concurrent with the Reclassification, total options to purchase Class A Common Stock of the Company were converted into 5,035 options to purchase shares of Common Stock. The exercise price of the options is determined by a committee of the Board of Directors ('Board') of the Company. Options granted have a term of ten years and vest in five equal installments on the first five anniversaries after the grant.

On September 14, 1995, the Board amended certain existing stock option agreements as follows: (i) outstanding options for 971 and 129 shares granted in August 1994 and January 1995, respectively, which had a variable exercise price dependent on future events, were amended to fix the exercise price at \$9.50 per share and (ii) outstanding options for 2,431 and 129 shares granted in August 1994 and January 1995, respectively, were amended to fix both the number of shares as originally granted and to fix the exercise price at \$16.28 per share. On September 14, 1995, certain of these amended options had an exercise price below estimated fair value. Accordingly, the Company recorded \$5,641 of deferred compensation expense to be recognized over the vesting period of the underlying options. In October 1995, the Board accelerated the vesting period of 1,100 outstanding stock options. Accordingly, the Company immediately charged \$3,567 of noncash compensatory stock option expense to selling, general and administrative expenses in 1995.

Non-Employee Director Plans

On May 7, 1996, the Company's shareholders approved the 1996 Non-Employee Director Deferred Compensation Plan ("Deferred Compensation Plan") and the 1996 Non-Employee Director Stock Option Plan ("Director Stock Option Plan"). Under the Deferred Compensation Plan, outside directors may elect to defer their fees and credit such fees to either a cash account which earns interest at a market-based rate or to a common stock unit account, for which 100 shares of Common Stock have been reserved. Under the Director Stock Option Plan, each outside director will receive an option to purchase one thousand shares of Common Stock, and up to fifty thousand shares of Common Stock may be issued under such plan. On May 24, 1996 the Compensation Committee granted options to purchase six thousand shares of Common Stock under the Director Stock Option Plan. Options have a term of ten years and, with the exception of options granted in 1996, which vest in one year, vest in five equal installments on the first five anniversaries following the date of grant and have option prices no less than fair market value at the date of grant.

The following table summarizes stock option activity for the plans after giving effect to the Reclassification:

	Weighted Average Exercise Price	Number of Shares	Price Per Share
Granted	\$ 12.06	4,372	\$ 4.00 to \$16.28
Outstanding at December 31, 1994	12.06	4,372	\$ 4.00 to \$16.28
Granted	9.76	663	\$ 4.00 to \$16.28
Outstanding at December 31, 1995	\$ 11.76	5,035	\$ 4.00 to \$16.28
Granted	34.21	358	\$34.21 to \$34.50
Exercised	(10.48)	(128)	\$ 4.00 to \$16.28
Canceled	(34.21)	(3)	\$ 34.21
Outstanding at December 31, 1996	\$ 13.31	5,262	\$ 4.00 to \$34.50
Options exercisable at December 31, 1996	\$ 11.30	2,439	
Available for grant at December 31, 1996		699	

Employee Stock Purchase Plan

On February 26, 1996, the Company adopted the 1996 Employee Stock Purchase Plan under which eligible employees may contribute up to 15% of their earnings toward the quarterly purchase of the Company's Common Stock. The plan makes available 250 shares of the Company's Common Stock commencing October 1, 1996. As of December 31, 1996, four thousand three hundred thirty six shares have been issued under the plan. Each plan period lasts three months beginning on January 1, April 1, and October 1 of each year. The purchase price for each share of stock is the lesser of 90% of the market price on the first day of the plan period or 100% of the market price on the last day of the plan period. No compensation expense is recorded in connection with the plan.

13. Warrant

On August 18, 1994, the Company issued a warrant ('Warrant') to purchase 34 shares of Class A Common Stock and 10 shares of Class C Common Stock in

connection with the Company's financing under the Prior Bank Credit Agreement. The Warrant had an exercise price of \$.01 per share. The Company valued the Warrant based upon the difference between the fair market value of the Company's common stock as of the date of issuance and the exercise price of the Warrant. The fair market value of the Company's common stock was determined by the cash consideration per share paid by the original investors at the time of the Acquisition. The estimated fair market value of \$3,200 for the Warrant was recorded as a component of stockholders' equity.

In connection with the Reclassification, the Warrant allowed for the purchase of 1,064 shares of the Common Stock at an exercise price of \$.01 per share. In October 1995, the Company issued 1,064 shares of Common Stock upon the exercise of the Warrant.

Waters Corporation and Subsidiaries

14. Foreign Currency Contracts

The Company has periodically entered into forward exchange contracts to hedge the impact of foreign currency fluctuations on the U.S. dollar value of certain anticipated and specified future foreign cash flows and foreign net asset values. The unrealized gains and losses on outstanding contracts at period end which relate to anticipated future cash flows are recorded in unrealized gains (losses) on future cash flow hedges in the statements of operations. The realized gains and losses on these contracts and on those contracts relating to specified future foreign cash flows are recorded as realized gains (losses) on cash flow hedges. In December 1995, the Company liquidated those outstanding contracts which hedged anticipated future cash flows. Gains (losses) on contracts hedging net asset values generated a reduction in translation adjustments of \$1,313 for the year ended December 31, 1995.

At December 31, 1996 and 1995, the Company had outstanding forward exchange contracts amounting to \$3,342 and \$3,400, respectively, which hedged the dollar value equivalent of specified future customer commitments. These contracts have an initial maturity of less than three months and mature in the period in which the local currency cash flow is expected.

15. Retirement Plans

Prior to the Acquisition, retirement benefits were provided to employees through the Millipore Corporation Employees' Participation and Savings Plan ('Millipore Participation Plan') and the Retirement Plan for Employees of Millipore Corporation ('Millipore Retirement Plan'). Subsequent to the Acquisition, the Company adopted two new retirement plans for employees effective August 19, 1994; the Waters Employee Investment Plan, a defined contribution plan, and the Waters Retirement Plan, a defined benefit cash balance plan, which supersede the aforementioned Millipore Corporation Participation and Retirement plans.

Waters employees' accumulated benefit balances in the Millipore Participation Plan were valued as of September 30, 1994 and transferred to the Waters Employee Investment Plan. Millipore and the Company have not yet agreed on the final valuation of the amount of benefits transferable from the Millipore Retirement Plan on behalf of Waters employees as of the Acquisition date. Upon agreement of a final valuation, Millipore will transfer the Waters Employees' accumulated benefit balances to the Waters Retirement Plan.

Waters is currently asserting a claim against Millipore under procedures specified in the purchase and sale agreement for the Predecessor. Waters contends that Millipore has undervalued the amount of assets it is obligated to transfer from the Millipore Retirement Plan to the Waters successor plan. Waters believes it has meritorious arguments and should prevail, although the outcome is not certain. The Company believes that any outcome of the proceeding will not be material to the Company.

Employees hired prior to the Acquisition date were eligible to participate in the Waters Employee Investment Plan as of the Acquisition date. Employees hired after this date but before October 1, 1996 were eligible after one year of service. As of October 1, 1996, new or existing employees are eligible after one month of service. Employees may contribute from 1%-15% of eligible pay on a pre-tax basis. The Company makes a matching contribution of 50% for contributions up to 6% of eligible pay after one year of service. Employees are 100% vested in company matching contributions upon becoming eligible for the plan. For the years ended December 31, 1996 and December 31, 1995, the Company's matching contributions amounted to \$1,318 and \$1,280, respectively. Effective December 31, 1996, the TA Instruments, Inc. Savings and Investment Plan was merged into the Waters Employee Investment Plan. TAI's matching contributions from May 1, 1996 to December 31, 1996 were \$127.

U.S. employees are eligible to participate in the Waters Retirement Plan after one year of service. The Company makes an annual contribution to each employee's account as a percentage of eligible pay based on years of service. In addition, each employee's account is credited for investment returns at the beginning of each year for the prior year at the average 12 month Treasury Bill rate plus 0.5%, limited to a minimum rate of 5% and a maximum rate of 10%. An employee does not vest until the completion of five years of service at which

time the employee becomes 100% vested. Years of service under the Millipore Retirement Plan count toward participation and vesting under the Waters Retirement Plan. As of December 31, 1996, the TA Instruments, Inc. Employees' Pension Plan ("TAI Pension Plan") was merged into the Waters Retirement Plan. Participants in the TAI Pension Plan as of December 31, 1996 will have an opening account balance established equal to the present value of their December 31, 1996 accrued benefit under the TAI Pension Plan. TAI employees eligible for early retirement as of December 31, 1996 will continue to accrue benefits under the TAI formula to the extent that it provides a larger benefit than their cash balance account in the Waters Retirement Plan.

Summary data for the Waters Retirement Plan at December 31, 1996 and 1995 are presented in the following table. These amounts include the effect of the TAI acquisition as of December 31, 1996.

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Waters Corporation and Subsidiaries

	Year Ended December 31, 1996	Year Ended December 31, 1995
-----		
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$9,127 and \$4,194, respectively	\$ (9,305)	\$ (4,323)
	-----	
Projected benefit obligation for service rendered to date	\$ (10,552)	\$ (4,424)
Estimated plan assets at fair value	13,988	2,087
	-----	
Projected benefit obligation (in excess of) less than fair value of assets	3,436	(2,337)
Unrecognized prior service costs	(734)	273
Unrecognized net actuarial (gain) loss	(3,910)	505
Minimum pension liability adjustment	-	(677)
	-----	
(Accrued) pension cost included in the financial statements	\$ (1,208)	\$ (2,236)
	=====	
Intangible asset	\$ -	\$ 273
	=====	

	Year Ended December 31, 1996	Year Ended December 31, 1995	Year Ended December 31, 1994
-----			
Net periodic pension cost includes the following components:			
Service cost	\$ 2,025	\$ 1,780	\$ 543
Interest cost	938	321	68
Return on plan assets	(700)	(137)	(60)
Amortization and deferral	(5)	(8)	(16)
	-----		
Net periodic pension cost	\$ 2,258	\$ 1,956	\$ 535
	=====		

The projected benefit obligation was calculated using the following assumptions:

Discount rate	7.75%	7.25%	8.75%
Return on assets	8.50%	8.50%	8.50%
Increases in compensation levels	4.75%	4.50%	5.00%

Millipore did not perform separate actuarial calculations for the Predecessor's portion of its Retirement Plan. As a result, data is not available for the plan for the period from January 1, 1994 to August 18, 1994.

16. Post-retirement Benefits Other than Pensions

The Company sponsors several unfunded defined benefit post-retirement plans covering U.S. employees. The plans provide medical insurance benefits and are, depending on the plan, either contributory or non-contributory.

Net periodic post-retirement benefit cost included the following components:

	Company			Predecessor
	Year Ended December 31, 1996	Year Ended December 31, 1995	August 19, 1994 to December 31, 1994	January 1, 1994 to August 18, 1994
Service cost-benefits attributed to service during the year				
Interest cost on accumulated post-retirement benefit obligation	\$ 95	\$ 82	\$ 37	257
Net amortization and deferral	69	64	35	174
Net periodic post-retirement benefit cost	(83)	(83)	(21)	(29)
	\$ 81	\$ 63	\$ 51	\$ 402

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#### Waters Corporation and Subsidiaries

Summary information on the Company's plan at December 31, 1996, and 1995 is presented in the following table:

	Year Ended December 31, 1996	Year Ended December 31, 1995
Accumulated post-retirement benefit obligation:		
Retirees	\$ 137	\$ 152
Fully eligible active plan participants	229	45
Other active plan participants	682	608
Unrecognized amounts:		
Prior service costs	1,348	1,556
Net loss (gain)	33	16
Accrued post retirement benefit cost	\$2,429	\$2,377

The Company's accrued post-retirement benefit obligation was \$2,429 and \$2,377 at December 31, 1996 and 1995, respectively, and is included in other liabilities in the balance sheet. This obligation pertains only to active employees of the Company at the time of the Acquisition and employees hired subsequent to the Acquisition. The obligation to fund post retirement benefits for retired employees prior to the Acquisition has been retained by Millipore.

The discount rate used in determining the accumulated post-retirement benefit obligation was 7.75%, and 7.25% as of December 31, 1996 and 1995, respectively. Increases in the health care cost trend rate do not result in any additional costs to the Company.

#### 17. Related Party Transactions

In 1996 and 1995, the Company made loans to certain executive officers of the Company. The loans are collateralized by a pledge of shares of common stock held by these executive officers. The 1995 loans bear interest at 5.83% per annum and mature on December 1, 2000. The additional loans made in 1996 bear interest at 5.65% per annum and mature on January 8, 2001. Loans receivable of \$2,487 at December 31, 1996 and \$2,062 at December 31, 1995 are included in other assets in the balance sheet at December 31, 1996 and December 31, 1995, respectively.

In connection with the consummation of the Acquisition, the Company and Millipore entered into a Transition Support and Service Agreement ('Transition Agreement') whereby Millipore agreed to (i) lease office space, (ii) transfer certain personnel, (iii) provide management information systems, administrative, distribution and facilities management support, (iv) provide access to its telephone network, and (v) supply professional support services. The Company believes that the costs incurred under the Transition Agreement are representative of the charges that would be levied by independent third parties for similar services. The Company incurred net expenses pursuant to this agreement of \$4,165, \$5,210 and \$5,621 for the years ended December 31, 1996, 1995, and 1994, respectively.

During the years ended December 31, 1996, 1995, and 1994, the Company sold product and services totaling \$86, \$104, and \$203, respectively, to Millipore.

In conjunction with the Acquisition, the Company assumed a deferred compensation liability of \$4,925 from Millipore to certain key executives of Waters. The liability incurred interest at an annual rate of 7.05%. This liability plus accrued interest was paid to the executives on September 14, 1995. Interest expense for the years ended December 31, 1995 and 1994 was \$254 and \$130, respectively.

In connection with the Acquisition, the Company entered into a ten-year Management Services Agreement with AEA Investors, Inc. and Bain Capital, Inc. pursuant to which they agreed to pay AEA Investors, Inc. and Bain Capital, Inc.

an aggregate annual management fee of \$1,500, plus out-of-pocket expenses. Pursuant to the Management Services Agreement, AEA Investors, Inc. and Bain Capital, Inc. provided general management, financial and other corporate advisory services to the Company. Pursuant to this agreement, AEA Investors, Inc. and Bain Capital, Inc. received a cash financial advisory fee of \$8,000 at the closing of the Acquisition. The management fee for the period August 19, 1994 to December 31, 1994 was \$552. In connection with the IPO, the Management Services Agreement was terminated for a fee of \$4,000. Management fees excluding the termination fee were \$1,393 for the year ended December 31, 1995.

On August 18, 1994, the Company issued common stock at fair market value to senior management in exchange for notes receivable in the amount of \$4,925. The notes receivable earned interest at an annual interest rate of 7.05%. Interest income on the notes receivable for the year ended December 31, 1995 was \$254. The notes receivable were collateralized by the shares of common stock owned by senior management of the Company. Accordingly, the notes receivable were recorded as a reduction of stockholders' equity during the period they were outstanding. On September 14, 1995, the notes were repaid in full.

## Waters Corporation and Subsidiaries

## 18. Business Segment Information

The Company operates in one business segment and in the geographical segments indicated in the table below. Sales are reflected in the segment from which the sales are made. The United States segment includes Puerto Rico. The other international segment includes Canada, South America, Australia, India, Eastern Europe and countries in the former Soviet Union. Transfer sales between geographical areas are generally made at a discount from list price.

## Company, 1996

	United States	Europe	Japan	Asia	Other Int'l	Elimination	Total
Sales:							
Unaffiliated sales	\$ 145,578	\$ 118,433	\$ 48,876	\$ 34,828	\$ 37,230	\$ -	\$ 384,945
Unaffiliated export sales to Asia	283	-	-	-	-	-	283
Unaffiliated export sales to Other Int'l	5,885	-	-	-	-	-	5,885
Transfers between areas	122,575	-	-	-	-	(122,575)	-
Total sales	\$ 274,321	\$ 118,433	\$ 48,876	\$ 34,828	\$ 37,230	\$ (122,575)	\$ 391,113
Income from operations	\$ 45,748	\$ 67	\$ 672	\$ (221)	\$ 423	(860)	\$ 45,829
Total assets	\$ 385,891	\$ 108,111	\$ 23,507	\$ 9,655	\$ 17,889	\$ (179,551)	\$ 365,502

	United States	Europe	Japan	Asia	Other Int'l	Elimination	Total
Sales:							
Unaffiliated sales	\$ 116,065	\$ 103,144	\$ 47,941	\$ 26,787	\$ 33,749	\$ -	\$ 327,686
Unaffiliated export sales to Asia	464	-	-	-	-	-	464
Unaffiliated export sales to Other Int'l	3,947	875	-	-	-	-	4,822
Transfers between areas	107,506	-	-	-	-	(107,506)	-
Total sales	\$ 227,982	\$ 104,019	\$ 47,941	\$ 26,787	\$ 33,749	\$ (107,506)	\$ 332,972
Income from operations	\$ 44,780	\$ 1,610	\$ 2,422	\$ (1,416)	\$ (1,014)	-	\$ 46,382
Total assets	\$ 343,768	\$ 75,464	\$ 20,537	\$ 11,010	\$ 18,402	\$ (169,365)	\$ 299,816

## Company, August 19, 1994 to December 31, 1994

	United States	Europe	Japan	Asia	Other Int'l	Elimination	Total
Sales:							
Unaffiliated sales	\$ 47,663	\$ 39,203	\$ 17,095	\$ 10,450	\$ 13,359	\$ -	\$ 127,770
Unaffiliated export sales to Asia	1,072	-	-	-	-	-	1,072
Unaffiliated export sales to Other Int'l	2,022	193	-	-	-	-	2,215
Transfers between areas	43,881	-	-	-	-	(43,881)	-
Total sales	\$ 94,638	\$ 39,396	\$ 17,095	\$ 10,450	\$ 13,359	\$ (43,881)	\$ 131,057
Loss from operations pre-restructuring	\$ (63,973)	\$ 240	\$ 789	\$ (1,204)	\$ 32	\$ -	\$ (64,116)
Restructuring charge	(498)	(960)	(1,660)	(320)	(62)	-	(3,500)
Loss from operations post-restructuring	\$ (64,471)	\$ (720)	\$ (871)	\$ (1,524)	\$ (30)	\$ -	\$ (67,616)
Total assets	\$ 331,113	\$ 79,291	\$ 21,503	\$ 12,058	\$ 18,640	\$ (131,007)	\$ 331,598

## Predecessor, January 1, 1994 to August 18, 1994

	United States	Europe	Japan	Asia	Other Int'l	Elimination	Total
Sales:							
Unaffiliated sales	\$ 70,101	\$ 47,373	\$ 26,242	\$ 10,711	\$ 17,253	\$ -	\$ 171,680
Unaffiliated export sales to							

Asia	1,441	-	-	-	-	-	1,441
Unaffiliated export sales to Other Int'l	2,717	259	-	-	-	-	2,976
Transfers between areas	65,064	-	-	-	-	(65,064)	-
Total sales	\$ 139,323	\$ 47,632	\$ 26,242	\$10,711	\$ 17,253	\$ (65,064)	\$ 176,097
Income from operations	\$ 16,781	\$ (8,109)	\$ (706)	\$ (2,045)	\$ (1,885)	\$ -	\$ 4,036

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Quarterly Results

Waters Corporation and Subsidiaries

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

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$85,313	\$ 95,965	\$ 98,414	\$ 111,421	\$ 391,113
Cost of sales	32,114	35,199	36,631	41,310	145,254
Revaluation of acquired inventory	-	2,440	3,660	-	6,100
Gross profit	53,199	58,326	58,123	70,111	239,759
Selling, general and administrative expenses	33,429	35,963	38,360	40,761	148,513
Research and development expenses	4,668	5,074	5,544	5,612	20,898
Goodwill and purchased technology amortization	931	1,431	1,615	1,242	5,219
Expensed in-process research and development	-	19,300	-	-	19,300
Operating income (loss)	14,171	(3,442)	12,604	22,496	45,829
Interest expense, net	3,954	3,480	3,706	3,600	14,740
Unrealized loss on future cash flow hedges-	-	-	-	-	-
Income (loss) from continuing operations before income taxes	10,217	(6,922)	8,898	18,896	31,089
Provision (credit) for income taxes	2,042	2,932	2,502	3,754	11,230
Income (loss) from continuing operations	8,175	(9,854)	6,396	15,142	19,859
Extraordinary item - (loss) on early retirement of debt	-	(22,264)	-	-	(22,264)
Net income (loss)	8,175	(32,118)	6,396	15,142	(2,405)
Less: accretion of and dividend on Preferred Stock	229	229	231	232	921
Net loss available to common stockholders	\$ 7,946	\$ (32,347)	\$ 6,165	\$ 14,910	\$ (3,326)
Per share information:					
Income from continuing operations	\$ .26	\$ (.32)	\$ .19	\$ .47	\$ .60
Extraordinary (loss) per common share	-	(.70)	-	-	(.71)
Net (loss) per common share	\$ .26	\$ (1.02)	\$ .19	\$ .47	\$ (.11)
Weighted average number of common shares outstanding	30,925	31,782	31,888	31,919	31,628
1995	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$77,554	\$ 84,328	\$ 80,634	\$ 90,456	\$ 332,972
Cost of sales	30,282	31,275	30,761	33,898	126,216
Revaluation of acquired inventory	-	-	371	554	925
Gross profit	47,272	53,053	49,502	56,004	205,831
Selling, general and administrative expenses	31,823	32,593	33,259	38,700	136,375
Management fee	387	383	389	4,234	5,393
Research and development expenses	4,096	4,418	4,346	4,821	17,681
Operating income (loss)	10,966	15,659	11,508	8,249	46,382
Interest expense, net	8,119	7,955	7,614	6,627	30,315
Foreign currency contracts losses (gains)	3,886	2,461	(6,669)	(853)	(1,175)
(Loss) Income from continuing operations before income taxes	(1,039)	5,243	10,563	2,475	17,242
(Credit) provision for income taxes	(199)	876	1,993	459	3,129
(Loss) before extraordinary item	(840)	4,367	8,570	2,016	14,113
Extraordinary item - (loss) on early retirement of debt	-	-	-	(12,112)	(12,112)
Net income (loss)	(840)	4,367	8,570	(10,096)	2,001
Less: accretion of and dividend on Preferred Stock	222	226	227	227	902
Net loss available to common stockholders	\$ (1,062)	\$ 4,141	\$ 8,343	\$ (10,323)	\$ 1,099
Per share information:					
(Loss) income from continuing operations	\$ (.04)	\$ .17	\$ .35	\$ .07	\$ .54
Extraordinary (loss) per share	-	-	-	(.45)	(.49)
Net (loss) income per share	\$ (.04)	\$ .17	\$ .35	\$ (.38)	\$ .05
Weighted average number of common shares outstanding	23,852	23,852	23,852	26,774	24,582



## Selected Financial Data

## Waters Corporation and Subsidiaries

	The Company			Predecessor Business		
	Year Ended December 31, 1996	Year Ended December 31, 1995	August 19 to December 31, 1994	January 1 to August 18, 1994	Year Ended December 31, 1993	Year Ended December 31, 1992
Statement of Operations Data:						
Net sales	\$391,113	\$332,972	\$131,057	\$176,097	\$ 304,927	\$ 309,287
Cost of sales	145,254	126,216	49,740	73,446	124,387	123,342
Revaluation of acquired inventory	6,100	925	38,424	-	-	-
Gross profit	239,759	205,831	42,893	102,651	180,540	185,945
Selling, general and administrative expenses	148,513	132,746	44,522	85,216	132,452	138,318
Research and development expenses	20,898	17,681	6,790	13,399	18,525	19,142
Goodwill and purchased technology amortization	5,219	3,629	1,227	-	-	-
Expensed in-process research and development	19,300	-	53,918	-	-	-
Management fee	-	5,393	552	-	-	-
Restructuring charge	-	-	3,500	-	13,000	-
Operating income (loss)	45,829	46,382	(67,616)	4,036	16,563	28,485
Interest expense, net (1)	14,740	30,315	12,011	828	2,072	2,107
Unrealized losses (gains) on future cash flow hedges	-	1,142	(923)	-	-	-
Realized (gains) on cash flow hedges	-	(2,317)	-	-	-	-
Income (loss) from continuing operations before income taxes	31,089	17,242	(78,704)	3,208	14,491	26,378
Provision for income taxes	11,230	3,129	1,487	916	4,169	6,180
Income (loss) from continuing operations, net of tax	19,859	14,113	(80,191)	2,292	10,322	20,198
Estimated (loss) on disposal of discontinued operations	-	-	787	(448)	(9)	108
Income (loss) before extraordinary item	19,859	14,113	(87,404)	1,844	10,313	20,306
Extraordinary item-(loss) on early retirement of debt	(22,264)	(12,112)	-	-	-	-
Income (loss) before cumulative effect of change in accounting principal	(2,405)	2,001	(87,404)	1,844	10,313	20,306
Cumulative effect of change in accounting principle (2)	-	-	-	-	-	(2,228)
Net income (loss)	\$ (2,405)	2,001	(87,404)	\$ 1,844	\$ 10,313	\$ 18,078
Less: accretion of and dividend on Preferred Stock	921	902	330			
Net income (loss) available to common stockholders	\$ (3,326)	\$ 1,099	\$ (87,734)			
Income (loss) per common share:						
Income (loss) per common share from continuing operations	\$ .60	\$ .54	\$ (3.38)			
Loss per common share from discontinued operations	-	-	(.30)			
Extraordinary loss per common share	(.71)	(.49)	-			
Net income (loss) per common share	\$ (.11)	\$ .05	\$ (3.68)			
Weighted average number of common shares	31,628	24,582	23,852			
Balance Sheet Data (at period end):						
Working capital	\$ 61,227	\$56,385	\$ 87,357		\$100,528	\$ 112,905
Total assets	365,502	299,816	331,598		189,592	199,513
Long-term debt, including current maturities (1)	210,470	158,500	275,000		-	-
Redeemable preferred stock	7,153	6,232	5,330		-	-
Stockholders' equity (deficit)/parent company investment	57,780	58,118	(22,670)		149,095	163,157

(1) Interest expense through August 18, 1994 was an allocation of Millipore's worldwide net interest expense based upon the ratio of the Predecessor's net assets to Millipore's net assets. No debt obligations of Millipore were reflected on the Predecessor's balance sheets.

(2) In 1992, the Company recorded an after tax charge to income of \$2.2 million for the adoption of the provisions of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

Directors  
-----  
Douglas A. Berthiaume

Officers  
-----  
Douglas A. Berthiaume

Chairman, President,  
and Chief Executive Officer  
Waters Corporation

Joshua Bekenstein  
Managing Director  
Bain Capital, Inc.

Philip Caldwell  
Senior Managing Director  
Lehman Brothers Inc.  
and Retired Chairman and  
Chief Executive Officer,  
Ford Motor Company

Edward Conard  
Managing Director  
Bain Capital, Inc.

Thomas P. Salice  
Managing Director  
AEA Investors, Inc.

Marc Wolpow  
Managing Director  
Bain Capital, Inc.

Chairman, President,  
and Chief Executive Officer

Arthur G. Caputo  
Senior Vice President  
Worldwide Sales  
and Marketing

Thomas W. Feller  
Senior Vice President  
Operations

John R. Nelson  
Senior Vice President  
Research and Development

Philip S. Taymor  
Senior Vice President  
Finance and Administration  
and Chief Financial Officer

Brian K. Mazar  
Vice President  
Human Resources  
and Investor Relations

Devette W. Russo  
Vice President  
Chromatography  
Consumables Division

Transfer  
- -----  
Agent  
- -----

Bank of Boston  
c/o Boston EquiServe, L.P.  
P.O. Box 8040  
Boston, Massachusetts 02266-8040  
617-575-3120  
Internet address: <http://www.equiserve.com>

Auditors  
- -----

Coopers and Lybrand L.L.P.  
One Post Office Square  
Boston, Massachusetts 02109

Attorneys  
- -----

Kirkland and Ellis  
Citicorp Center  
153 East 53rd Street  
39th Floor  
New York, New York 10022

Stockholders'  
-----  
Meeting  
-----

Date: May 6, 1997, 11 a.m.  
Place: Waters Corporation  
34 Maple Street  
Milford, Massachusetts  
Directions: Call 800-252-4752 Ext. 3314

Stocklist  
-----  
Symbol  
-----

NYSE: WAT  
Form 10K  
-----

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

Waters Corporation  
34 Maple Street  
Milford, Massachusetts 01757

Offices  
-----

Corporate Headquarters  
Waters Corporation  
34 Maple Street  
Milford, Massachusetts 01757  
Phone: 508-478-2000  
Toll free: 800-252-4752  
FAX: 508-872-1990  
Email: [info@waters.com](mailto:info@waters.com)  
Internet address:  
<http://www.waters.com>

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[LETTERHEAD OF COOPERS & LYBRAND]

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Waters Corporation:

We have audited the accompanying consolidated balance sheets of Waters Corporation and Subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1996 and 1995 and the period from August 19, 1994 to December 31, 1994. These financial statements are the responsibility of Waters Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Waters Corporation and Subsidiaries as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years ended December 31, 1996 and 1995 and the period from August 19, 1994 to December 31, 1994 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.  
Coopers & Lybrand L.L.P.

Boston, Massachusetts  
January 22, 1997

## [LETTERHEAD OF COOPERS &amp; LYBRAND]

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Millipore Corporation:

We have audited the accompanying statements of operations and cash flows of the Waters Chromatography Division of Millipore Corporation (the "Predecessor") for the period from January 1, 1994 to August 18, 1994. These financial statements are the responsibility of Millipore Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Certain costs and expenses presented in the financial statements represent allocations and management's estimates of the costs of services provided to the Waters Chromatography Division by Millipore Corporation. As a result, the financial statements presented may not be indicative of the financial position or results of operations that would have been achieved had the Waters Chromatography Division operated as a non-affiliated entity.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of the Waters Chromatography Division of Millipore Corporation for the period from January 1, 1994 to August 18, 1994 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.  
Coopers & Lybrand L.L.P.

Boston, Massachusetts  
February 10, 1995

WATERS

March 31, 1997

Dear Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend the Annual Meeting of Stockholders of Waters Corporation (the "Company") on May 6, 1997 at 11:00 o'clock a.m., eastern standard time. The meeting will be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757.

The matters scheduled to be considered at the meeting are the election of directors of the Company and the ratification of auditors for the Company. These matters are more fully explained in the attached Proxy Statement which you are encouraged to read.

The Board of Directors values and encourages stockholder participation. It is important that your shares be represented, whether or not you plan to attend the meeting. Please take a moment to sign, date and return your Proxy in the envelope provided even if you plan to attend the meeting.

We hope you will be able to attend the meeting.

Sincerely,

/s/ Douglas A. Berthiaume

Douglas A. Berthiaume Chairman,  
President and Chief Executive  
Officer

Waters Corporation 34 Maple Street Milford, MA 01757-3696 U.S.A. 508 478-  
2000 FAX 508 872-1990

WATERS

WATERS CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders of Waters Corporation (the "Company") will be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757 on May 6, 1997, at 11:00 o'clock a.m., eastern standard time, for the following purposes:

1. To elect directors to serve for the ensuing year and until their successors are elected.
2. To ratify the selection of the firm of Coopers & Lybrand L.L.P., the present auditors, as auditors for the fiscal year of 1997; and
3. To consider and act upon any other matters which may properly come before the meeting or any adjournment thereof.

In accordance with the provisions of the Company's bylaws, the Board of Directors has fixed the close of business on March 24, 1997 as the record date for the determination of the holders of Common Stock entitled to notice of and to vote at the Annual Meeting.

By order of the Board of Directors

/s/ Douglas A. Berthiaume

Douglas A. Berthiaume  
Chairman, President and Chief  
Executive Officer

Milford, Massachusetts March 31, 1997

Waters Corporation 34 Maple Street Milford, MA 01757-3696 U.S.A. 508 478-  
2000 FAX 508 872-1990

WATERS CORPORATION

34 MAPLE STREET  
MILFORD, MASSACHUSETTS 01757

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS  
MAY 6, 1997, 11:00 O'CLOCK A.M.

The Proxy is solicited by the Board of Directors of Waters Corporation (the "Company") for use at the 1997 Annual Meeting of Stockholders to be held on May 6, 1997 at 11:00 o'clock a.m. at the Company's headquarters located at 34 Maple Street, Milford, Massachusetts, 01757. Solicitation of the Proxy may be made through officers and regular employees of the Company by telephone or by oral communications with some stockholders following the original solicitation period. No additional compensation will be paid to such officers and regular employees for Proxy solicitation. Corporate Investor Communications, Inc. has been hired by the Company to do a limited broker solicitation for a fee of \$4,000. Expenses incurred in the solicitation of Proxies will be borne by the Company.

VOTING MATTERS

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

Shares represented by Proxy will be voted in accordance with your instructions. You may specify your choice by marking the appropriate box on the Proxy card. If your Proxy card is signed and returned without specifying choices, your shares will be voted in favor of the proposals made by the Board of Directors, and as the individuals named as Proxy holders on the Proxy deem advisable on all other matters as may properly come before the meeting.

For all matters to be voted upon at the meeting, the affirmative vote of a majority of shares present in person or represented by Proxy, and entitled to vote on the matter, is necessary for approval. Withholding authority to vote or an instruction to abstain from voting on a proposal will be treated as shares present and entitled to vote and, for purposes of determining the outcome of the vote, will have the same effect as a vote against the proposal. A broker "non-vote" occurs when a nominee holding shares for a beneficial holder does not have discretionary voting power and does not receive voting instructions from the beneficial owner. Broker "non-votes" will not be treated as shares present and entitled to vote on a voting matter and will have no effect on the outcome of the vote.

Any stockholder giving the enclosed Proxy has the power to revoke such Proxy prior to its exercise either by voting by ballot at the meeting, by executing a later-dated Proxy or by delivering a signed written notice of the revocation to the office of the Secretary of the Company before the meeting begins. The Proxy will be voted at the meeting if the signer of the Proxy was a stockholder of record on March 24, 1997 (the "Record Date").

On the Record Date, there were 28,929,595 shares of Common Stock outstanding and entitled to vote at the meeting. Each outstanding share of Common Stock is entitled to one vote. This Proxy Statement is first being sent to the stockholders on or about March 31, 1997. A list of the stockholders entitled to vote at the meeting will be available for inspection at the meeting for purposes relating to the meeting.

MATTERS TO BE ACTED UPON

1. ELECTION OF DIRECTORS

The Board of Directors recommends that the stockholders vote FOR each nominee for director set forth below. Six directors are to be elected at the meeting, each to hold office until his successor is elected and qualified or until his earlier resignation, death or removal. Each nominee listed below is currently a director of the Company. It is intended that the Proxies in the form enclosed with this Proxy Statement will be voted for the nominees set forth below unless stockholders specify to the contrary in their Proxies or specifically abstain from voting on this matter.

The following information pertains to the nominees, their principal occupations for the preceding five-year period, certain directorships and their ages as of April 1, 1997:

Douglas A. Berthiaume, 48, has served as Chairman of the Board of Directors of the Company since February 1996 and has served as President and Chief Executive Officer of the Company since August 1994. From 1990 to 1994, Mr. Berthiaume served as President of the Waters Chromatography Division of Millipore (the "Predecessor"). Mr. Berthiaume is a Director of Genzyme Corporation and the Vice-Chairman of the Analytical Instrument Association.

Joshua Bekenstein, 38, has served as a Director of the Company since August

1994. He has been a Managing Director of Bain Capital, Inc. ("Bain") since January 1993 and a General Partner of Bain Venture Capital since its inception in 1987. Mr. Bekenstein is a Director of Stage Stores Inc., Totes Inc., Small Fry Snack Foods, Inc. and Bright Horizons Children's Center, Inc..

Philip Caldwell, 77, has served as a Director of the Company since August 1994. Mr. Caldwell has been a Director and Senior Managing Director of Lehman Brothers Inc. and its predecessor, Shearson Lehman Brothers Holdings Inc., since 1985. Mr. Caldwell spent 32 years at Ford Motor Company where he was Chairman of the Board of Directors and Chief Executive Officer from 1980 to 1985 and a Director from 1973 through 1990. Mr. Caldwell is a Director of Zurich Holding Company of America, Inc., Zurich Reinsurance Centre Holdings, Inc., American Guarantee & Liability Insurance Company (a Zurich affiliate), The Mexico Fund, MT Investors, Inc. and Russell Reynolds Associates, Inc. He has served as a Director of CasTech Aluminum Group Inc., the Chase Manhattan Bank Corporation, the Chase Manhattan Bank, N.A., Digital Equipment Corporation, Federated Department Stores Inc., Kellogg Company, Shearson Lehman Brothers Holdings, Inc. and Specialty Codings International, Inc.

Edward Conard, 40, has served as a Director of the Company since August 1994. He has been a Managing Director of Bain since March 1993. Mr. Conard is a Director of Medical Specialties Group, Inc. Mr. Conard has served as a Director of Wasserstein Perella and Company, an investment banking firm that specializes in mergers and acquisitions. Previously, he was a Vice President of Bain & Company, where he headed the firm's operations practice area.

Thomas P. Salice, 37, has served as a Director of the Company since July 1994. Mr. Salice is a Managing Director of AEA Investors Inc. ("AEA") and has been associated with AEA since May 1989. Mr. Salice is also a Director of Mettler-Toledo, Inc. and Manchester Tank & Equipment Company.

Marc Wolpov, 38, has served as a Director of the Company since August 1994. He has been a Managing Director of Bain since January 1993 and was a Principal of Bain Venture Capital from May 1990 through December 1992. From 1988 to April 1990, Mr. Wolpov was a Vice President in the corporate finance department of Drexel Burnham Lambert, Incorporated. Mr. Wolpov is a Director of American Pad & Paper Company, Professional Services Industries, Inc., Miltex Instruments Inc. and Paper Acquisition Corporation.

## 2. RATIFICATION OF AUDITORS

The Board of Directors recommends that the stockholders vote FOR the ratification of the firm of Coopers & Lybrand L.L.P. as the auditors to audit the financial statements of the Company and certain of its subsidiaries for the fiscal year ending December 31, 1997. It is intended that the Proxies in the form enclosed with this Proxy Statement will be voted for such firm unless stockholders specify to the contrary in their Proxies or specifically abstain from voting on this matter.

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Representatives of Coopers & Lybrand L.L.P. are expected to be present at the Annual Meeting of Stockholders. They will have the opportunity to make statements if they desire to do so and will be available to respond to appropriate questions.

## 3. OTHER BUSINESS

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

## DIRECTORS MEETINGS AND COMPENSATION

### DIRECTORS MEETINGS

The Board of Directors held 6 meetings during the year ended December 31, 1996. The Audit Committee, which currently consists of Messrs. Bekenstein, Caldwell and Salice, oversees actions taken by the Company's independent auditors, recommends the engagement of auditors and reviews the Company's internal audits. The Compensation Committee, which currently consists of Messrs. Conard and Salice, approves the compensation of executives of the Company, makes recommendations to the Board of Directors with respect to standards for setting compensation levels and administers the Company's incentive plans. There is no standing nominating committee. During fiscal year 1996, all of the Company's directors except for Mr. Wolpov participated in excess of 75% of the aggregate of the meetings of the Board of Directors and the meetings of committees of the Board of Directors of which such director was a member. During fiscal year 1996, the Compensation Committee met three times and the Audit Committee met two times.

Charles L. Brown resigned in November 1996 as a Director of the Company. Pursuant to the provisions of the Company's Bylaws, the Board of Directors resolved to fix the number of members of the Board of Directors at six.

### COMPENSATION OF DIRECTORS



Directors who are full-time employees of the Company receive no additional compensation for serving on the Board or its committees. Outside Directors each receive a retainer of \$15,000 per year (other than the Chairman who, if an Outside Director, will receive an annual fee of \$30,000) and \$750 for each Board meeting and committee meeting that they attend. All directors are reimbursed for expenses incurred in connection with their attendance at meetings.

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MANAGEMENT COMPENSATION

SUMMARY COMPENSATION TABLE

The following Summary Compensation Table discloses, for the fiscal years indicated, individual compensation information on Mr. Berthiaume and the four other most highly compensated executive officers (collectively, the "named executives") who were serving as executive officers at the end of fiscal year 1996.

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			SECURITIES	ALL OTHER
	FISCAL YEAR	SALARY (\$)	BONUS (\$)	UNDERLYING OPTIONS/SARS (#) OF SHARES	
Douglas A. Berthiaume....	1996	299,990	352,200 (1)	38,500	22,696 (2) (3) (4)
Chairman, President,	1995	275,002	548,414 (5) (6)	--	26,914 (7) (8) (9)
Chief Executive Officer	1994	318,329	1,599,517 (10) (11)	1,325,240 (12)	9,550 (13) (14) (15)
Arthur G. Caputo.....	1996	160,004	164,480 (1)	22,000	11,446 (2) (3) (4)
Senior Vice President,	1995	149,994	345,714 (5) (6)	--	15,685 (7) (8) (9)
Sales and Marketing	1994	170,000	601,100 (10) (11)	491,410 (12)	5,100 (15) (16) (17)
Thomas W. Feller.....	1996	160,004	164,480 (1)	22,000	13,655 (2) (3) (4)
Senior Vice President,	1995	155,012	352,714 (5) (6)	--	16,236 (7) (8) (9)
Operations	1994	175,668	601,637 (10) (11)	491,410 (12)	5,270 (13) (14) (15)
John R. Nelson .....	1996	164,996	169,620 (1)	22,000	11,053 (2) (3) (4)
Senior Vice President,	1995	160,004	359,714 (5) (6)	--	18,086 (7) (8) (9)
Research and Development	1994	181,993	602,170 (10) (11)	491,410 (12)	5,460 (14) (15) (17)
Philip S. Taymor .....	1996	160,004	164,480 (1)	22,000	10,582 (2) (3) (4)
Senior Vice President,	1995	149,994	395,714 (5) (6)	--	16,799 (7) (8) (9)
Finance and Administra- tion and					
Chief Financial Officer	1994	138,328	601,270 (10) (11)	491,410 (12)	4,150 (14) (15) (17)

- (1) Reflects bonus earned under the Company's Pay for Performance Plan in 1996 which was paid in 1997.
- (2) Includes amounts contributed for the benefit of the named executive under the Waters 401(k) Restoration Plan in 1996 as follows: Mr. Berthiaume \$18,508, Mr. Caputo \$5,600, Mr. Feller \$5,308, Mr. Nelson \$6,933 and Mr. Taymor \$5,331.
- (3) Includes amounts contributed for the benefit of the named executive under the Waters Employee Investment Plan in 1996 as follows: Mr. Berthiaume \$1,404, Mr. Caputo \$4,454, Mr. Feller \$4,612, Mr. Nelson \$3,296 and Mr. Taymor \$4,588.
- (4) Includes amounts contributed for the benefit of the named executive under Group Term Life Insurance in 1996 as follows: Mr. Berthiaume \$2,784, Mr. Caputo \$1,392, Mr. Feller \$3,735, Mr. Nelson \$824 and Mr. Taymor \$663.
- (5) Reflects bonus earned under the Company's Pay for Performance Plan in 1995 which was paid in 1996 as follows: Mr. Berthiaume \$412,700, Mr. Caputo \$210,000, Mr. Feller \$217,000, Mr. Nelson \$224,000 and Mr. Taymor \$210,000.
- (6) Reflects one-time cash bonus earned in 1995 and paid in 1996 in connection with certain productivity programs implemented by senior management as follows: Mr. Berthiaume \$135,714, Mr. Caputo \$135,714, Mr. Feller \$135,714, Mr. Nelson \$135,714 and Mr. Taymor \$185,714.
- (7) Includes amounts contributed for the benefit of the named executive under the Waters 401(k) Restoration Plan in 1995 as follows: Mr. Berthiaume \$21,216, Mr. Caputo \$8,504, Mr. Feller \$10,422, Mr. Nelson \$10,840 and Mr. Taymor \$11,503.
- (8) Includes amounts contributed for the benefit of the named executive under the Waters Employee Investment Plan in 1995 as follows: Mr. Berthiaume \$3,481, Mr. Caputo \$6,367, Mr. Feller \$4,809, Mr. Nelson \$4,752 and Mr. Taymor \$4,867.
- (9) Includes amounts contributed for the benefit of the named executive under Group Term Life Insurance in 1995 as follows: Mr. Berthiaume \$2,219, Mr. Caputo \$816, Mr. Feller \$1,006, Mr. Nelson \$2,494 and Mr. Taymor \$429.

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- (10) Includes the aggregate amount of deferred compensation and cash paid by Millipore to the named executive in connection with the divestiture of the Company as follows: Mr. Berthiaume \$1,570,000, Mr. Caputo \$585,000, Mr. Feller \$585,000, Mr. Nelson \$585,000 and Mr. Taymor \$585,170.
- (11) Includes amounts of bonus earned by the named executive under the Company's Pay for Performance Plan in 1994 which was paid in 1995 as follows: Mr. Berthiaume \$29,517, Mr. Caputo \$16,100, Mr. Feller \$16,637, Mr. Nelson \$17,170 and Mr. Taymor \$16,100.
- (12) Reflects grant of options to purchase shares of Common Stock. Certain of such options were granted at an exercise price equal to the estimated fair value of the Common Stock at the date of grant and the other options were granted at an exercise price in excess of such estimated fair value. All such options have a term of ten years. The Company amended the option agreements in the third fiscal quarter of 1995. After giving effect to such amendment, the named executive officers held the following options: Mr. Berthiaume, 282,562 options at an exercise price of \$4.07 per share, 282,562 options at an exercise price of \$9.50 per share, and 760,116 options at an exercise price of \$16.28 per share; and each of Messrs. Caputo, Feller, Nelson and Taymor, 110,567 options at an exercise price of \$4.07 per share; 110,567 options at an exercise price of \$9.50 per share, and 270,276 options at an exercise price of \$16.28 per share. The Company also amended the option agreements in the fourth fiscal quarter of 1995 to vest an aggregate of 1,099,535 options at the \$9.50 exercise price.
- (13) Includes amounts contributed by Millipore for the benefit of the named executive under the Millipore Supplemental Executive Retirement Plan as follows: Mr. Berthiaume \$3,720; and Mr. Feller \$640.
- (14) Includes amounts contributed by Millipore for the benefit of the named executive under the Millipore Savings Plan as follows: Mr. Berthiaume \$3,080; Mr. Feller \$3,080; Mr. Nelson \$3,860; and Mr. Taymor \$2,650.
- (15) Includes amounts contributed by the Company for the benefit of the named executive under the Waters 401(k) Restoration Plan as follows: Mr. Berthiaume \$2,750; Mr. Caputo \$750; Mr. Feller \$1,550; Mr. Nelson \$1,200; and Mr. Taymor \$655.
- (16) Includes \$3,600 contributed by Millipore for the benefit of Mr. Caputo under the Millipore Participation Plan.
- (17) Includes amounts contributed for the benefit of the named executive under the Waters Employee Investment Plan as follows: Mr. Caputo \$750; Mr. Nelson \$400; and Mr. Taymor \$845.

OPTION GRANTS IN FISCAL YEAR 1996

The following table shows information regarding stock option grants to the named executives in fiscal year 1996:

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	5% (\$)	10% (\$)
Douglas A. Berthiaume...	38,500	10.76%	34.21	05/24/06	\$ 548,606	\$ 1,653,719
Arthur G. Caputo.....	22,000	6.15%	34.21	05/24/06	\$ 313,489	\$ 944,982
Thomas W. Feller.....	22,000	6.15%	34.21	05/24/06	\$ 313,489	\$ 944,982
John R. Nelson.....	22,000	6.15%	34.21	05/24/06	\$ 313,489	\$ 944,982
Philip S. Taymor.....	22,000	6.15%	34.21	05/24/06	\$ 313,489	\$ 944,982

AGGREGATED OPTION EXERCISES, HOLDINGS AND YEAR END VALUES FOR FISCAL YEAR 1996

There were no exercises of stock options during fiscal year 1996 by the named executives. The following table shows information regarding the number and value of any unexercised stock options held by such executives as of December 31, 1996:

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#)	VALUE OF UNEXERCISED IN-THE MONEY OPTIONS AT FY-END (\$) EXERCISABLE/ UNEXERCISABLE (1)
Douglas A. Berthiaume.....	699,632/664,108	\$13,157,105/\$10,888,003
Arthur G. Caputo.....	262,903/250,507	\$ 4,995,260/\$ 4,030,829

Thomas W. Feller.....	262,903/250,507	\$ 4,995,260/\$ 4,030,829
John R. Nelson.....	262,903/250,507	\$ 4,995,260/\$ 4,030,829
Philip S. Taymor.....	262,903/250,507	\$ 4,995,260/\$ 4,030,829

- -----  
(1) Value is based on the closing price of the Common Stock on December 31, 1996 of \$30.375.

#### WATERS CORPORATION RETIREMENT PLANS

Substantially all full-time United States employees of Waters participate in the Waters Corporation Retirement Plan (the "Retirement Plan"), a defined benefit pension plan intended to qualify under Section 401(a) of the Internal Revenue Code (the "Code"). The Retirement Plan is a cash balance plan whereby each participant's benefit is determined based on annual pay credits and interest credits made to each participant's notional account. In general, a participant becomes vested under the Retirement Plan upon the completion of five years of service. The normal retirement age under the plan is age 65.

Pay credits range from 4.0% to 9.5% of compensation, depending on the participant's amount of compensation and length of service with the Company. Compensation refers to pension eligible earnings of the participant (limited to \$150,000 for 1996), which includes base pay, overtime, certain incentive bonuses, commissions and pre-tax deferrals, but excludes special items such as stock awards, moving expense reimbursements and employer contributions to retirement plans. Interest credits are based on the one-year constant maturity Treasury Bill rate on the last day of the preceding plan year plus 0.5%, subject to a 5.0% minimum and 10.0% maximum rate.

The Company also maintains a non-qualified, supplemental plan which provides benefits that would be paid by the Retirement Plan except for the limitations on pensionable pay and benefit amounts currently imposed by the Code.

The aggregate estimated annual benefit payable from the Retirement Plan and supplemental plan to Messrs. Berthiaume, Caputo, Feller, Nelson and Taymor upon normal retirement is \$93,000, \$60,000, \$23,000 \$39,000 and \$79,000, respectively. As of December 31, 1996, Messrs. Berthiaume, Caputo, Feller, Nelson and Taymor had approximately 16, 19, 20, 20 and 16 years of credited service, respectively, under the Retirement Plan.

#### COMPENSATION COMMITTEE INTERLOCKS

The Compensation Committee currently consists of Mr. Edward Conard and Mr. Thomas Salice. Prior to the Company's initial public offering, each of Mr. Conard and Mr. Salice also served as an officer of the Company.

#### COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors is responsible for administering the compensation of senior executives of the Company and is comprised of two independent non-employee directors.

The Committee's compensation philosophy is to focus management on achieving financial and operating objectives which provide long-term stockholder value. The Company's executive compensation programs are designed to align the interest of senior management with those of the Company's stockholders. There are three key components of executive compensation: base salary, pay for performance (annual incentive), and long-term performance incentive. It is the intent of these programs to attract, motivate and retain senior executives. It is the philosophy of the Compensation Committee to allocate a significant portion of cash compensation to variable performance-based compensation in order to reward executives for high achievement.

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#### Base Salary

The salaries for senior executives are reviewed annually and are based upon a combination of factors including past individual performance, competitive salary levels, and an individual's potential for making significant contributions to future Company performance. Increases to senior executives' base salaries in fiscal year 1996 were determined by the Committee after subjective consideration of the Company's financial performance in fiscal year 1995, individual position and responsibilities, and general and industry market surveys for comparable positions. No senior executives received any increase in base salary in fiscal year 1994 or in fiscal year 1995.

#### Annual Incentive

The Pay for Performance Plan, an annual incentive award plan, is the variable pay program for officers and other senior executives of the Company. The purpose of the Pay for Performance Plan is to provide added motivation and direction to senior executives to achieve operating results based on operating budgets established at the beginning of the year. The Compensation Committee evaluates the audited results of the Company's performance against previously established performance targets in order to determine the individual bonuses under the Pay for Performance Plan. The Company achieved a level of performance required to pay bonuses for fiscal year 1996 based upon overall

Company performance.

Long-Term Performance Incentive Plan

Stock options are an important component of senior executive compensation and the Long-Term Performance Incentive Plan has been designed to motivate senior executives and other key employees to contribute to the long-term growth of stockholder value. Under the 1994 Amended and Restated Stock Option Plan, stock options were also granted to the Company's senior executives and other key individuals. The Compensation Committee authorizes awards under the plan based upon recommendations from the Company's President.

Other Compensation

The Company's senior executives are also eligible to participate in other compensation plans that are generally offered to other employees, such as the Company's investment and savings plan, the retirement plan, the employee stock purchase plan, and the supplemental employee retirement plans.

Chief Executive Compensation

Based on its evaluation of the Company's overall performance and the salaries and compensation practices of peer companies of comparable size, the Compensation Committee elected to increase Mr. Berthiaume's annual base salary for fiscal year 1996 to \$300,000 from \$275,000. Under the Pay for Performance Plan, the Compensation Committee awarded Mr. Berthiaume a bonus of \$352,200 for fiscal year 1996 based upon the Company's performance as compared to pre-established criteria and targets. Mr. Berthiaume received a stock option grant of 38,500 shares (at an option price equal to 115% of the fair market value on the date of grant), based on the subjective considerations described under the 1994 Amended and Restated Stock Option Plan.

Limit on Deductible Compensation

The Compensation Committee has considered the application of Section 162(m) of the Code to the Company's compensation practices. Section 162(m) limits the tax deduction available to public companies for annual compensation paid to senior executives in excess of \$1 million unless the compensation qualifies as performance-based. The annual cash compensation paid to individual executives does not approach the \$1 million threshold, and it is believed that the stock incentive plans of the Company qualify as performance-based. Therefore, the Committee does not believe any further action is necessary in order to comply with Section 162(m). From time to time, the Committee will reexamine the Company's compensation practices and the effect of Section 162(m).

Mr. Edward Conard

Mr. Thomas Salice

PERFORMANCE GRAPH

The following graph compares the cumulative total return on \$100 invested on November 17, 1995 (the first day of public trading of the Common Stock) through December 31, 1996 (the last day of public trading of the Common Stock in fiscal year 1996) in the Common Stock of the Company, the NYSE Market Index and the SIC Code 3823 Index. The return of the indices is calculated assuming reinvestment of dividends during the period presented. The Company has not paid any dividends since its initial public offering. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG WATERS CORPORATION NYSE MARKET INDEX AND SIC CODE INDEX

[PERFORMANCE GRAPH]

Date	Waters Corporation	New York Stock Exchange Market Index	Process Control Instruments Index (SIC Code 3823)
11/17/95	100.00	100.00	100.00
12/31/95	120.66	102.31	99.05
12/31/96	200.83	123.24	116.41

The table below sets forth certain information regarding beneficial ownership of Common Stock as of March 24, 1997, by each person or entity known to the Company who owns of record or beneficially five percent or more of the Common Stock, by each named executive officer and director nominee and all executive officers and director nominees as a group.

NAME -----	NUMBER OF SHARES OF COMMON STOCK (1) -----	PERCENTAGE OF OUTSTANDING COMMON STOCK (1) -----
5% STOCKHOLDERS		
Pilgrim Baxter & Associates, Ltd. .... 1255 Drummers Lane, Suite 300 Wayne, Pennsylvania 19087-1590	2,392,900	8.27
DIRECTORS AND EXECUTIVE OFFICERS		
Douglas A. Berthiaume (2).....	1,356,001	4.58
Arthur G. Caputo (2).....	408,764	1.40
Thomas W. Feller (2).....	393,290	1.35
John R. Nelson (2).....	323,228	1.11
Philip S. Taymor (2).....	406,763	1.39
Joshua Bekenstein (3).....	0	*
Philip Caldwell (3) (4).....	32,143	*
Edward Conard (5).....	0	*
Thomas P. Salice (3) (5) (6).....	38,592	*
Marc Wolpow.....	0	*
All Directors and Executive Officers as a group (12 persons).....	3,651,154	11.77

\*represents less than 1% of the total.

- (1) Figures are based upon 28,929,595 shares of Common Stock outstanding as of March 24, 1997. The figures assume exercise by only the stockholder or group named in each row of all options for the purchase of Common Stock held by such stockholder or group which are exercisable within 60 days of March 24, 1997.
- (2) Includes share amounts which the named individuals have the right to acquire through the ownership of options which are exercisable within 60 days of March 24, 1997 as follows: Mr. Berthiaume 699,632, Mr. Caputo 262,903, Mr. Feller 262,903, Mr. Nelson 262,903 and Mr. Taymor 262,903.
- (3) Member of the Audit Committee.
- (4) Includes 31,782 shares held in trust for Mr. Caldwell's wife, Betsey C. Caldwell, and for which shares he disclaims beneficial ownership.
- (5) Member of the Compensation Committee.
- (6) Includes 6,335 shares in a family trust, for which shares he disclaims beneficial ownership.

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#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

##### EMPLOYMENT AGREEMENTS

None of the executive officers have employment agreements with the Company or any of its affiliates. None of them have any agreements entitling them to termination or severance payments upon a change in control of the Company nor a change in the named executive's responsibilities following a change of control. However, each of the named executive officers is party to a Management Subscription Agreement with the Company pursuant to which each named executive officer has purchased shares of Common Stock in the Company. Each executive officer is also the grantee of certain stock options from the Company under one or more Stock Option Agreements. Pursuant to the terms of such agreements the stock purchased under such agreements or available upon exercise of the options may be subject to repurchase by the Company at the end of such executive's employment with the Company. The Management Subscription Agreements and the Stock Option Agreements also impose certain additional restrictions upon the executive, including confidentiality obligations, assignment of the benefit of inventions and patents to the Company, a requirement that the executive devote his or her exclusive business time to the Company, and noncompete restrictions which extend in certain cases, depending on the basis on which his or her employment is terminated, for a period of up to 24 months following his or her termination date.

##### LOANS TO EXECUTIVE OFFICERS

The Company has made loans, in an aggregate principal amount of \$2,342,303 million, to certain executive officers of the Company. These loans are all in amounts in excess of \$60,000, are full recourse loans and are secured by a pledge of certain of the shares of Common Stock owned by such executive officers. The following executive officers' loans are as of December 1, 1995, bear interest at 5.83% and have a maturity date of December 1, 2000: Douglas A. Berthiaume, Chairman, President and Chief Executive Officer, \$650,919; Arthur G. Caputo, Senior Vice President, Sales and Marketing, \$245,825; Thomas W. Feller, Senior Vice President, Operations, \$245,825; Brian K. Mazar, Vice

President, Human Resources and Investor Relations, \$247,843; John R. Nelson, Senior Vice President, Research and Development, \$204,854; Devette Russo, Vice President, Chromatography Chemistry Division, \$211,190; and Philip S. Taymor, Senior Vice President, Finance and Administration and Chief Financial Officer, \$245,825. The following executive officers' loans are as of January 8, 1996, bear interest at 5.65% and have a maturity date of January 8, 2001: Mr. Berthiaume \$92,939, Mr. Caputo \$34,629, Mr. Feller \$34,617, Mr. Mazar \$34,629, Mr. Nelson \$28,858, Ms. Russo \$29,750 and Mr. Taymor \$34,629.

#### REGISTRATION RIGHTS AGREEMENT

The Company is party to a registration rights agreement (the "Registration Rights Agreement") among all of the Company's existing stockholders. Pursuant to the terms of the Registration Rights Agreement, certain of the Company's stockholders have the right to require the Company, at the sole expense of the Company and subject to certain limitations, to register under the Securities Act of 1933 (the "Securities Act") all or part of the shares of Common Stock (the "Registrable Securities") held by them. All of the Company's existing stockholders are entitled to unlimited "piggyback" registrations. In connection with all registrations, the Company will agree to indemnify all holders of Registrable Securities against certain liabilities, including liabilities under the Securities Act. Registrations pursuant to the Registration Rights Agreement will be made on the appropriate registration form and may be underwritten registrations.

#### INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has entered into agreements to provide indemnification for its directors and executive officers in addition to the indemnification provided for in the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws.

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#### DIRECTOR AND OFFICER AND TEN PERCENT STOCKHOLDER SECURITIES REPORTS

The federal securities laws require the Company's directors and officers, and persons who own more than ten percent of the Company's Common Stock, to file with the Securities and Exchange Commission, the New York Stock Exchange and the Secretary of the Company initial reports of ownership and reports of changes in ownership of the Common Stock of the Company. All of the Company's officers filed reports late during the fiscal year ended December 31, 1996.

Except for the foregoing, to the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 1996 all of the Company's officers, directors and greater-than-ten-percent beneficial owners made all required filings.

#### STOCKHOLDER PROPOSALS

Proposals of stockholders to be presented at the 1998 Annual Meeting of Stockholders must be received by the Secretary of the Company by November 4, 1997 to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting. It is anticipated that the 1998 Annual Meeting will be scheduled for May 5, 1998.

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1444-PS-97

The Officers and Directors of Waters Corporation  
cordially invite you to attend  
the Annual Meeting of Stockholders  
to be held at Waters Corporation, 34 Maple Street,  
Milford, Massachusetts on Tuesday, May 6, 1997 at 11:00 a.m.

Douglas A. Berthiaume

/s/ Douglas Berthiaume

Chairman, President and Chief Executive Officer

Please sign, date and return your proxy in the envelope provided even if you plan to attend the meeting.

DETACH HERE

[X] PLEASE MARK  
VOTES AS IN  
THIS EXAMPLE.

1. To elect a Board of Directors for the ensuing year.

Nominees: Joshua Bekenstein, Douglas A. Berthiaume, Philip Caldwell, Edward Conard, Thomas P. Salice, Marc Wolpow

FOR WITHHELD  
[ ] [ ]

[ ] -----  
For all nominees except as noted above

2. To ratify the selection of the firm of FOR AGAINST ABSTAIN  
Coopers & Lybrand L.L.P. as auditors [ ] [ ] [ ]  
for the fiscal year ending December  
31, 1997

3. To transact such other business as may properly come before the meeting.

MARK HERE MARK HERE  
FOR ADDRESS IF YOU PLAN  
CHANGE AND TO ATTEND  
NOTE AT LEFT [ ] THE MEETING [ ]

(If signing as attorney, executor, trustee or guardian, please give your full title as such. If shares are held jointly, each holder should sign.)

Signature: \_\_\_\_\_ Date: \_\_\_\_\_ Signature: \_\_\_\_\_ Date: \_\_\_\_\_

DIRECTIONS TO  
WATERS CORPORATION  
ANNUAL MEETING

DATE: MAY 6, 1997  
MEETING LOCATION: WATERS CORPORATION  
34 MAPLE STREET  
MILFORD, MA 01757  
TEL (508) 478-2000

FROM BOSTON - Mass Turnpike West to Route 495, take Route 495 South to exit 19, (Milford/Medway, Rt. 109), turn right at end of exit onto Route 109 West, continue approximately 1/2 mile, turn left onto Birch St. (at Richard's Restaurant). Take right at end of Birch St. and follow the signs to Waters.

FROM THE WEST - Mass Turnpike East to Route 495, take Route 495 South to exit 19, (Milford/Medway, Rt. 109), turn right at end of exit onto Route 109 West, continue approximately 1/2 mile, turn left onto Birch St. (at Richard's Restaurant). Take right at end of Birch St. and follow the signs to Waters.

FROM THE NORTH OR SOUTH - take Route 495 to exit 19, (Milford/Medway, Rt. 109), turn at end of exit onto Route 109 West, continue approximately 1/2 mile, turn left onto Birch St. (at Richard's Restaurant). Take right at end of Birch St. and follow the signs to Waters.

PLEASE NOTE: THESE DIRECTIONS CAN BE REPEATED BY CALLING A RECORDING AT (508) 482-3314.

DETACH HERE

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WATERS CORPORATION  
FOR ANNUAL MEETING OF STOCKHOLDERS - MAY 6, 1997  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY

The undersigned hereby appoints Douglas A. Berthiaume and Philip S. Taymor, and each or either of them, as the true and lawful attorneys of the undersigned, with full power of substitution and revocation, and authorizes them, and each of them, to vote all the shares of capital stock of the Corporation which the undersigned is entitled to vote at said meeting and any adjournment thereof upon the matters specified below and upon such other matters as may be properly brought before the meeting or any adjournments thereof, conferring authority upon such true and lawful attorneys to vote in their discretion on such other matters as may properly come before the meeting and revoking any proxy heretofore given.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS AND FOR  
---

THE PROPOSAL IN ITEM 2, AND AUTHORITY WILL BE DEEMED GRANTED UNDER PROPOSAL 3.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

[SEE REVERSE SIDE]



CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of Waters Corporation on Form S-8 (File No. 333-18371) of our report dated January 22, 1997, on our audits of the consolidated financial statements of Waters Corporation and Subsidiaries as of December 31, 1995 and 1996, and for the period August 19, 1994 to December 31, 1994 and the years ended December 31, 1995 and 1996, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.  
Coopers & Lybrand L.L.P.

Boston, Massachusetts  
March 25, 1997

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement on Form S-8 (File No. 333-18371) of our report which includes an explanatory paragraph addressing certain costs and expenses presented in the financial statements which represent allocations and management's estimates of the costs of services provided by Millipore Corporation, dated February 10, 1995, on our audit of the financial statements of Waters Chromatography Division of Millipore Corporation (the "Predecessor") for the period January 1, 1994 to August 18, 1994, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.  
Coopers & Lybrand L.L.P.

Boston, Massachusetts  
March 25, 1997

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