



FORM 10-K405

WATERS CORP /DE/ - WAT

Filed: March 31, 1998 (period: December 31, 1997)

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

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UNITED STATES
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, 1997

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 registered pursuant to Section 12(b) of the Act: NONE
Securities 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 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 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)

State the aggregate market value of the voting stock held by non-affiliates of
the registrant as of March 23, 1998: \$1,532,334,801.

Indicate the number of shares outstanding of the registrant's common stock as of
March 23, 1998: 29,790,227.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1997 Annual Report to Stockholders are incorporated by reference
in Parts I and II.

Portions of the proxy statement for the 1998 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, the operating subsidiary. 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. The Company has made two significant acquisitions since its inception: TA Instruments, Inc. in May 1996 and Micromass Limited in October 1997.

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 1997 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. Also, with its acquisition of Micromass Limited ("Micromass") in September 1997, Waters is a market leader in mass spectrometry, which can be integrated and used along with other analytical instruments, especially HPLC.

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 instrument types. 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 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 HPLC revenues.

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Consumable products and service comprise the remaining one third of annual HPLC 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 expanded the Company's product offerings to include thermal analysis and rheology products. 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 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.

The acquisition of Micromass expands the Company's product offerings in mass spectrometry instruments. Micromass is a world leader in the development, manufacture, sale and support of organic, inorganic, stable isotope and ICP mass spectrometers typically coupled with HPLC, chemical electrophoresis, chemical electrophoresis chromatography, gas chromatography or elemental analysis systems. Its products supply a diverse market with a strong emphasis on the life science, pharmaceutical, biomedical, clinical, environmental and geochemistry markets worldwide. With the acquisition of Micromass, Waters became one of the leading worldwide manufacturers of HPLC-MS systems, "hyphenated" analytical systems that bring together HPLC and mass spectrometry detection. Design innovations in HPLC-MS interfacing technology have drastically improved the operating efficiencies of these systems, greatly simplifying their operation, driving down their overall cost and making them much more affordable for the average analytical laboratory. These laboratories previously relied on expert mass spectrometrists to provide them the information they now get in minutes. The largest market for HPLC-MS is the pharmaceutical market where new drug development technologies are placing greater demands on laboratories to screen and analyze new drug compounds. Approximately 88% of Micromass' 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.

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 1997, no customer accounted for more than 2% of the Company's net sales.

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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 for 1997, 1996 and 1995, were \$25.8 million, \$20.9 million, and \$17.7 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. The majority of the mass spectrometry products have been developed at Micromass' facilities in England. At December 31, 1997, there were approximately 305 employees involved in the Company's research and development efforts.

SALES AND SERVICE

Waters has the largest sales and service team focused exclusively on HPLC in the industry. Along with TAI and Micromass, the Company serves its customer base through over 865 field representatives in 73 sales offices throughout the world. 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. Waters provides customers with comprehensive product literature and also makes consumable products available through a dedicated catalog. TAI and Micromass maintain their own dedicated, specialized and highly experienced sales and service forces.

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 HPLC 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. Micromass manufactures its mass spectrometry products at its Manchester, England facilities.

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. Waters competes in its markets primarily on the basis of instrument performance, reliability and service and, to a lesser extent, price. Some competitors have instrument businesses that are much larger than the Company's business, but are typically less focused on Waters' chosen markets. Certain competitors have greater financial and other resources than the Company.

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The market for consumable HPLC products, including separation columns, is also highly competitive but is more fragmented than the analytical 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.

EMPLOYEES

At December 31, 1997, Waters had approximately 2,640 employees. 56% 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.

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.

With respect to the Predecessor operations of the Company's HPLC business, 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 its manufacturing operations 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 19 United States facilities and 68 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.

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PRIMARY FACILITY LOCATIONS

LOCATION	FUNCTION (1)	OWNED/LEASED	SQUARE FEET (000'S)
Etten-Leur, Netherlands	D	Leased	42
Franklin, MA	D	Leased	30
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
Wexford, Ireland	M	Leased	20
Deeside Flintshire, UK	M, R, S, D	Leased	25
Wilmington, NC	M, R, S, D	Leased	5
New Castle, DE	M, R, S, D	Leased	49
Leatherhead, England	M, R, S, D	Leased	10
Manchester, England	M, R, S, D	Leased	54
Cheshire, England	M, R, S	Leased	28

(1) M = Manufacturing; R = Research; S = Sales; D = Distribution

Waters operates and maintains 14 field offices in the United States and 59 field offices abroad in addition to sales offices in the primary facilities listed above. The Company's primary field office locations are listed below.

FIELD OFFICE LOCATIONS (2)

UNITED STATES	INTERNATIONAL		
Tustin, CA	Australia	Hungary	Russia
Wood Dale, IL	Austria	India	Spain
Fairfax, VA	Belgium	Italy	Sweden
Cary, NC	Brazil	Japan	Switzerland
Morristown, NJ	Canada	Malaysia	Taiwan
Houston, TX	Czech Republic	Mexico	United Kingdom
Pleasanton, CA	Denmark	Netherlands	
Ann Arbor, MI	Finland	Norway	
Charlotte, NC	France	People's Republic of China	
Felton, CA	Germany	Poland	
Rolling Meadows, IL	Hong Kong	Puerto Rico	
Beverly, MA			

(2) 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 has asserted a claim contending that Millipore has understated the amount of assets it is obligated to transfer from the Millipore Retirement Plan to the Waters successor plan. The Federal court has recently ruled in favor of Millipore's position with respect to the claim. The Company appealed the decision in October, 1997. The Company believes it has meritorious arguments and should prevail although the outcome is not certain.

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Regardless, the outcome is not expected to have a material impact on the Company's financial position.

The Company, through its subsidiary TAI, asserted a claim against The Perkin-Elmer Corporation ("PE") alleging patent infringement of three patents owned by TAI ("the TAI patents"). PE counterclaimed for infringement of a patent owned by PE ("the PE patent"). PE withdrew its claim for infringement preserving its right to appeal rulings interpreting the claims of the PE patent. A jury returned a verdict finding that no valid claims of the TAI patents were infringed by PE. TAI has appealed the verdict with the U.S. District Court for the District of Delaware and believes it has meritorious arguments and should prevail, although the outcome is not certain. The Company believes that any outcome will not be material to the Company.

The Company has filed suit against Hewlett-Packard Company and Hewlett-Packard GmbH ("HP"), seeking a declaration that certain products sold under the mark Alliance do not constitute an infringement of one or more patents owned by HP or its foreign subsidiaries ("the HP patents"). Similar actions seeking revocation or nullification of foreign HP patents have been filed in Europe. The Company believes it has meritorious arguments and should prevail, although the outcome is not certain. The Company believes that any outcome of the proceedings 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 EQUITY 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 23, 1998, the Company had approximately 296 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.

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 ---
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
March 31, 1997	31 3/8	26
June 30, 1997	37 3/4	23 1/8
September 30, 1997	45 1/4	31 7/16
December 31, 1997	48 7/16	36

Item 6: SELECTED FINANCIAL DATA

Reference is made to information contained in the section entitled "Selected Financial Data" on page 42 of the 1997 Annual Report, which information is incorporated herein by reference.

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

Reference is made to the information on pages 19 to 23 of the 1997 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 25 to 40 of the 1997 Annual Report together with the "Report of Independent Accountants" dated January 23, 1998 on page 24 and "Quarterly Results" on page 41, 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.

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.

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PART IV

Item 14: EXHIBITS, FINANCIAL STATEMENT 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 25 to 40 of the 1997 Annual Report, which information is incorporated herein by reference.
- (2) Not Applicable.
- (3) List of exhibits:

Exhibit

Number Description of Document

- | | |
|------|---|
| 2.1 | Agreement for the Sale and Purchase of Micromass Limited dated as of September 12, 1997, between Micromass Limited, Schroder UK Buy-Out Fund III Trust I and Others, Waters Corporation and Waters Technologies Corporation. (Incorporated by reference to the Registrant's Report on Form 8-K, filed on October 8, 1997 as amended on December 5, 1997.) |
| 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.
- 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.)

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- 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)
- 13.1 1997 Annual Report to Stockholders.
- 21.1 Subsidiaries of Waters Corporation. (1)
- 22.1 Proxy Statement for the 1997 Annual Meeting of Stockholders.
- 23.1 Consent of Coopers & Lybrand L.L.P.
- 27.1 Financial Data Schedule for December 31, 1997.
- 27.2 Restated Financial Data Schedule for September 30, 1997 and June 30, 1997.
- 27.3 Restated Financial Data Schedule for March 31, 1997 and December 31, 1996.
- 27.4 Restated Financial Data Schedule for September 30, 1996 and June 30, 1996.
- 27.5 Restated Financial Data Schedule for March 31, 1996 and December 31, 1995.
- 27.6 Restated Financial Data Schedule for December 31, 1994.

-
- (1) Incorporated by reference to the Registrant's Report on Form 10-K dated March 30, 1998.
 - (2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-3810).

(b) Reports on Form 8-K.

Form 8-K was filed on October 8, 1997 and amended Form 8-K was filed on December 5, 1997, both relating to the acquisition of Micromass Limited.

(c) See (3) above.

(d) Not Applicable.

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SIGNATURES

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

behalf by the undersigned, thereunto duly authorized.

Date: March 31, 1998

Waters Corporation

/s/ Philip S. Taymor

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 31, 1998.

/s/ Douglas A. Berthiaume ----- Douglas A. Berthiaume	Chairman of the Board of Directors, Chief Executive Officer, and President (principal executive officer)
/s/ Philip S. Taymor ----- Philip S. Taymor	Senior Vice President, Finance and Administration, and Chief Financial Officer (principal financial officer and principal accounting officer)
/s/ Joshua Bekenstein ----- Joshua Bekenstein	Director
/s/ Michael J. Berendt ----- Michael J. Berendt, PhD	Director
/s/ Philip Caldwell ----- Philip Caldwell	Director
/s/ Edward Conard ----- Edward Conard	Director
/s/ Laurie H. Glimcher ----- Dr. Laurie H. Glimcher	Director
/s/ William J. Miller ----- William J. Miller	Director
/s/ Thomas P. Salice ----- Thomas P. Salice	Director

[Front Cover]

Waters

1997 Annual Report

THE RIGHT FORMULA FOR EXPANSION

[Cover Image]

A photograph of U.S. and foreign coins superpositioned over drawn representation of a molecule.

[Inside front cover]

Waters Corporation (NYSE:WAT) is the world's leading supplier of high performance liquid chromatography (HPLC) instrumentation and consumables, as well as thermal analysis and mass spectrometry (MS) products. Around the world, Waters(R) products are used by pharmaceutical, industrial, university and government research & development, quality assurance and environmental testing laboratories. For these customers, we provide technology that gives scientists fundamental data on chemical mixtures and materials. Then, by turning these analytical data into useful information, we help scientists understand the complexities of chemistry and life itself.

FINANCIAL HIGHLIGHTS

ADJUSTED FINANCIAL RESULTS (A):

(\$ in thousands, except per share data)	1997	1996	Increase
For the year:			
Net Sales	\$465,470	\$391,113	19%
Operating income	\$ 92,687	\$ 71,229	30%
Percentage of Sales	19.9%	18.2%	
Income from operations before income taxes	\$ 78,967	\$ 56,489	40%
Net income available to common stockholders	\$ 62,270		
	\$ 44,338	40%	
Net income per basic common share	\$ 2.14	\$ 1.54	39%
Net income per diluted common share	\$ 1.94	\$ 1.40	39%
Return on average assets	13.6%	13.3%	
Return on average equity	65.0%	54.2%	
At year end:			
Total assets	\$ 552,059	\$365,502	
Stockholders' equity	\$ 62,297	\$ 57,780	
Employees	2,640	2,135	

(A) Adjusted financial results for 1997 reflect reported results of operations excluding nonrecurring charges related to the September 1997 acquisition of Micromass Limited (\$16,500 of revaluation of acquired inventory and \$55,000 of expensed in-process research and development). Adjusted financial results for 1996 reflect reported results of operations excluding 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 (\$6,100 of revaluation of acquired inventory, \$19,300 of expensed in-process research and development and \$22,264 of extraordinary loss on early retirement of debt). Excluded amounts had no related tax effects. Net income per basic common share for 1997 and 1996 were computed based upon weighted average shares of common stock outstanding of 29,127 and 28,841, respectively. Net income per diluted common share for 1997 and 1996 were computed based upon weighted average shares

LETTER TO SHAREHOLDERS

[Photographs]

Three photographs of Douglas A. Berthiaume, Chairman, President, and Chief Executive Officer on a 35mm film strip.

During 1997, we significantly expanded our technological and market reach within the broad \$12 billion analytical instrument marketplace. We began this expansion with the 1996 acquisition of TA Instruments/TM/, Inc., the world leader in thermal analysis, and continued this year with the acquisition of Micromass Limited in September which brought to Waters a world leader in mass spectrometry. We have increased the market we serve by 50% from the approximate \$2 billion liquid chromatography market to a total of \$3 billion of the analytical laboratory market and stand well-positioned to increase our penetration of this expanded market.

Over the past several years as we have evaluated important developments in both the analytical instrument marketplace and in liquid chromatography, we have focused, in particular, on the growing importance of mass spectrometry and adopted a long-term strategy to develop this capability. In 1994, we introduced a first generation benchtop LC-MS System with our Integrity/TM/ product. Then in 1997, we accelerated our efforts in mass spectrometry with the completion of the merger between Waters and Micromass Limited. We can now offer our customers state-of-the-art capabilities utilizing quadrupole,

magnetic sector and time-of-flight technologies, and we can deliver these capabilities through a sales, marketing and distribution organization that is unsurpassed in the industry. Although Micromass has been part of Waters for only a brief period, it appears that the combination will be even more powerful than our original expectations. Optimism is very high at Waters and, more importantly, within our worldwide customer base. We believe that the field of LC-MS will be the fastest growing segment of the analytical marketplace over the next five years and, with the Waters-Micromass combination, no other competitor is better positioned to develop and advance this technology.

Our core business also performed extremely well in 1997. Led by our Alliance/TM/ System's success, our chromatography business ended the year with strong double-digit unit growth, and we have continued to introduce innovative products and maintain a rich new product pipeline to sustain our growth into the future. In the fourth quarter alone, we introduced a new UV absorbance detector (2487), a system for combinatorial drug discovery, and our keynote Millennium(R)/32/ which expands and extends our industry leading chromatography software position. Millennium/32/, which takes full advantage of the Windows NT(R) platform, is well suited for the needs of large customers, particularly pharmaceutical customers, to control and network large numbers of liquid chromatographs.

Other areas of our business have also continued to keep pace. Our TA Instruments thermal analysis and rheology product lines grew at double-digit rates in 1997, and we believe, continued to gain marketshare. We also extended our chromatography consumables position with the acquisition of YMC, Inc. in August, received very good response to our new Oasis/TM/ HLB sample preparation product line and continued to introduce successful extensions of our Symmetry(R) column product line.

Finally, through the Waters Connections/SM/ Program, we reemphasized that extraordinary customer assurance and support is a foundation of Waters' commitment to its customers. Waters is earmarking significant resources to maintain our well-earned reputation for service and support.

Our efforts have been rewarded with outstanding financial performance in 1997. Sales grew 19% to \$465.5 million, while earnings per diluted share before nonrecurring charges grew by 39% to \$1.94 per share. Operating cash flow was an impressive \$113 million for the year. Fourth quarter performance was particularly outstanding with the strongest incoming order rate in over five years.

This is an exciting time for Waters. We are challenged by scientists who are looking for innovative solutions. They have growing requirements for more productivity, ease-of-use and higher throughput in their analytical laboratories. Their needs are driving them to more sophisticated systems incorporating powerful mass detectors and state-of-the-art computer software, with networking capabilities to link their global research activities.

Their companies are allocating unprecedented levels of human and financial

resources to speed their products to market. I believe Waters is superbly positioned with products and technologies to continue to aid these chemists in their mission.

Sincerely,

Douglas A. Berthiaume

Chairman, President, and Chief Executive Officer

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DISCOVERING THE MOLECULAR STRUCTURE FOR MANAGED GROWTH

If a successful business could distill and measure the essence of intelligent growth and expansion, what would the result look like? It should come as no surprise that, at Waters, we're trying to do just that. After all, we're experts in helping companies break down matter to its most primary level. So as you might imagine, we take a relatively scientific approach to our business. While we invest in many technologies and technology extensions, we employ a disciplined decision-making process based equally on very sound business and scientific principles. For example, we will not invest in a technology, no matter how brilliant, if we cannot identify clear and compelling commercial applications and if we are not convinced the technology has an extremely good chance of contributing significantly to our bottom line. Likewise, we will not enter a marketplace, no matter how promising, without technology that we believe is superior and will remain so.

Our philosophy has served both us and our shareholders well this past year. And over the past four decades, it is this kind of thinking that has helped make Waters one of the most respected names in our industry. Respected by our customers, our employees and, yes, even our competitors.

In 1996 - 1997, we made a number of important strategic decisions that have helped us expand our product offerings and the markets where we have a major presence. These are the first careful steps to help us grow beyond our traditional High Performance Liquid Chromatography (HPLC) technologies. And while our roots are clearly still in HPLC, we are becoming more diverse, playing in a much larger marketplace. By adding mass spectrometry and thermal analysis to our core strength in HPLC, we can offer more comprehensive solutions to analytical laboratories worldwide.

The bottom line is that we are now a more diverse company. And one that is better able to respond to the increasing demands for advances in laboratory productivity.

[Figure Caption]

In 1997, the market for liquid chromatography products was nearly \$2.0 billion. With recent acquisitions, Waters is now a leader in the thermal analysis and mass spectrometry arenas, and is participating in a worldwide market estimated at \$3.0 billion annually.

4

[Photograph]

Glass flask partially filled with bluish liquid sitting atop columns of financial (bond market) data.

5

On the following pages we will tell you more about how business and science intersect in four elements critical to our continued growth: developing and bringing to market leading edge technologies, identifying and serving the right markets, providing uncompromising customer service, and making intelligent additions to our product offerings. But first, it may be helpful to take a quick refresher course on exactly what our business is.

In broad terms, Waters and its subsidiaries provide the tools (instrumentation, software, consumables and customer support) that make very specific analytical measurements, and then turn these data into usable information. The technologies we provide scientists - HPLC, thermal analysis and mass spectrometry - supply information on the chemical composition, material properties and structural profiles of natural and synthetic substances. This information allows scientific professionals - chemists, biochemists, and materials scientists - to make better decisions about the directions their research should take. Or it tells them 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. Our technologies are used on a daily basis by pharmaceutical, food, beverage, chemical and industrial companies, as well as

government agencies, universities and research institutes.

[Figure Caption]

As of the end of last year, Waters' stock price had increased more than 150% since its I.P.O. in November of 1995.

6

[Photograph]

Results of an HPLC peptide analysis laid over business section of a newspaper.

7

HOW TECHNOLOGICAL BREAKTHROUGHS END UP ON THE BOTTOM LINE

[Photographs]

Bar graph illustrating revenues as follows:

For 1995, \$332.9 million

For 1996, \$391.1 million

For 1997, \$465.5 million

Waters generated revenues of \$332.9 million in 1995, \$391.1 million in 1996 and \$465.5 million in 1997, putting year over year revenue growth at over 17% since becoming an independent company in late 1994.

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Most companies say they want to provide good products for their customers. At Waters, we take this idea a bit further. Quite simply, our goal is to provide the best products in every category in which we choose to compete.

Consider the Alliance System. A product of our most significant investment in research and development, and the result of a remarkable team effort at Waters, Alliance was launched in 1996. It instantly set a new standard for performance and reliability in the HPLC industry. It also helped us win customers in numerous new accounts. And extensions of the Alliance product line will provide a strong foundation for our HPLC business for many years to come. Later in this report, we will talk about how our recent acquisition of Micromass Limited, a mass spectrometry company, allows us to combine complementary technologies to bring scientists new capabilities in LC-MS that are full of commercial promise.

In 1997, our Millennium/32/ software, the new version of the industry's best-selling product, redefined chromatography information management. It is the first true 32-bit program of its kind, and easier to use yet more powerful than existing software. Written for the Microsoft(R) Windows environment, Millennium/32/ is the backbone of our networking strategy. It is also year 2000-compliant. And as many labs migrate to Windows NT and Windows(R) 95, Millennium/32/ is the logical choice for software standardization.

In addition to the instrument and the software, the third critical element of analyzing a chemical mixture by HPLC is the HPLC column, which separates a sample's constituents from one another, so that their concentrations can be accurately measured. Columns are consumable products, and once a particular column brand is specified for an HPLC method, regulatory compliance often dictates that the same column brand be specified for years to come. The Waters Symmetry(R) line of columns is recognized as being unsurpassed in performance and column-to-column reproducibility. This reproducibility is important, so that methods can be transferred to sites around the world and yield exactly the same results.

Last year Waters launched the Oasis line of single-use, disposable sample preparation products. Oasis products are used to prepare complex samples such as plasma for follow-up analysis of drugs and their metabolites by HPLC and LC-MS. The introduction of this product line gives Waters access to a \$50 million market segment in which we previously did not participate.

[Figure Caption]

Millennium/32/ software (above), Symmetry columns (right), and the Alliance System (far right) represent the three keys necessary for a successful HPLC procedure.

[Illustrations]

Line drawings of the following Waters products: Millennium/32/ Software, Symmetry Columns, and Alliance HPLC System

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ANALYZING WHERE AND HOW TO FIND NEW MARKETS

[Photograph]

Three tiered organization chart superpositioned over an illustration of a molecule. The chart depicts industries and applications relevant to Waters' business. Chart components read:

Tier 1 - Waters

Tier 2 - Pharmaceutical, Chemical, Environmental, University, Food and Beverage, Government

Tier 3 - Research and Discovery, Manufacturing, Environmental Testing, Development, Effluent Monitoring, Regulatory Enforcement

Waters products are hard at work in many of today's most important and fastest growing industries.

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With nearly two thirds of our sales coming from outside of the United States, our marketplace clearly is not limited by geography. And while our clients produce everything from diet soda to the latest miracle drugs, they share one common trait: they need precise scientific tools that they can depend on.

In the HPLC market, currently estimated at \$2 billion annually, Waters is the market share leader. The pharmaceutical industry is our largest market, and all indications are that it will continue to grow at a rapid pace. Current spending for research and development is at an all-time high. In addition, regulatory bodies around the world are making it faster for companies to get important new drugs to the public. Or use existing drugs for new purposes. These facts, as well as the aging of the population and a stable pricing environment, should add up to positive results for companies, such as ours, that provide vital solutions to this market. What's more, the recent addition of Micromass Limited, and its mass spectrometry detectors for liquid chromatography, will further help us take advantage of our strength in the pharmaceutical arena. Liquid chromatography-mass spectrometry (LC-MS) is one of the fastest growing segments of the HPLC marketplace. LC-MS is a particularly valuable tool for analyzing drug compounds during the research and discovery phase.

The chemical industry is another one of our large market segments. Our 1996 acquisition of TA Instruments, Inc. is allowing us to provide a wider range of products to our chemical industry customers. This past year, TA Instruments performed extremely well, with growth in the double digits.

As we approach new markets and try to gain a larger share of established ones, we will increasingly take advantage of our wide range of products. Waters offers all three keys to the success of the HPLC procedure: a high performance instrument, powerful data management software and an HPLC column or consumable element that is of high quality and consistency. Our message to scientists is that if any one of these pieces is sub-standard, the entire analysis process is compromised. Our slogan, "It's All Important, SM" refers to the way we feel about our technologies, and how we sell them as well.

Another important way that we plan to engage new markets is by giving scientists a better way to move data around the corner or around the globe. This year, several important customer accounts began the move to standardize their worldwide software network using our new Millennium/32/ Chromatography Software. We expect this migration to accelerate in the years to come, and plan to use our software as our competitive advantage, allowing us to penetrate new accounts with software, then eventually sell entire systems.

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THE RIGHT CHEMISTRY FOR GETTING AND KEEPING CUSTOMERS

[Photograph]

Illustration of unzipped DNA strand. Matching labels on two sides read:

Connections
Millennium/32/
Alliance
Micromass
TA Instruments
Symmetry
Oasis

Customer Support
Information Management
Chemical Analysis
Compound I.D.
Materials Analysis
Drug Analysis
Sample Prep

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Nearly 40 years ago, Waters was founded by scientists to serve other scientists.

And while our company has grown to over 2,500 employees worldwide, a dedication to knowing and serving our customers remains one of our core beliefs. Today, our employees have an average of 10 years of service with our company, providing more collective experience than any company in our field.

Last year we took dramatic steps to make our already highly regarded customer service even better. We introduced Waters Connections program, an entirely new concept for our industry. Connections accesses our global network of HPLC experts, our long heritage of scientific leadership and innovative product technologies and application solutions to provide customers with unprecedented information, education, performance assurance, support and regulatory compliance assistance.

Whether it's a difficult question about a complex application or simply advice on keeping Waters products running at the highest level of performance, Connections has the answer. An important part of Connections is our Performance Assurance Programs which make service and maintenance more convenient, allow customers to budget for this on an annual basis, and provide maximum system uptime. This preventative maintenance program is proving popular with our customer base.

Customer service is another area where we are leveraging technological advances to work more efficiently. Our long history in the business has produced volumes and volumes of useful information. Customers can now access this unique resource via our CD-based tools or our Web site, where relevant, up-to-date information is available for scientists worldwide.

We design every Waters product and service to meet the ever-changing needs of customers, and we are always on the lookout for future opportunities to expand our product portfolio and increase market share.

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TO US, SCIENCE IS A BUSINESS, AND BUSINESS IS A SCIENCE

While we believe that Waters possesses an intellectual capital that is without peer, there are some other companies who do things quite well, too. And when they have developed a proven technology that is complementary to ours, and when there is a good fit, an acquisition makes sense for both scientific and business reasons.

Such was the case on September 11th, when Waters announced the acquisition of Micromass Limited, of Manchester, England. This acquisition immediately gives us a strong competitive position in the mass spectrometry marketplace in general, and in LC-MS in particular, one of the fastest-growing segments of the liquid chromatography market. Micromass is a very profitable and well-managed company. And the addition of world leading MS to our product portfolio allows us to improve our already strong position with pharmaceutical companies. With this accretive acquisition, Waters now has leading positions in three complementary technologies - HPLC, thermal analysis and mass spectrometry. And our potential marketplace has increased from \$2 to \$3 billion.

In addition, last year we purchased YMC, Inc., which markets premium HPLC columns and bulk packing materials for North America. Annual revenues exceed \$7 million. This addition nicely augments the very profitable consumables segment of our business.

In the years to come, we plan to make similar, selective additions to expand our range of products and technologies.

We hope that the preceding pages have conveyed how we have and how we will continue marrying good business with good science for good results. It is the way things have always been done at Waters. And after nearly 40 years, we seem to be getting the formula down pretty well.

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COMPANY OFFICERS

[Photographs]

10 Photographs of company officers on 35mm film strips. Captions beneath seven read:

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

Thomas W. Feller
Senior Vice President, Operations

Philip S. Taymor
Senior Vice President and Chief Financial Officer

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

Devette W. Russo
Vice President, Chromatography Consumables Division

Arthur G. Caputo
Senior Vice President, Worldwide Sales and Marketing

John R. Nelson
Senior Vice President, Research, Development, and Engineering

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WATERS CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Waters Corporation (the "Company") is the world's largest manufacturer and distributor 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. Through its wholly owned subsidiary TA Instruments, Inc. ("TAI"), the Company is also the world's leader in thermal analysis, a prevalent and complementary technique used in the analysis of polymers. Also, through its wholly owned subsidiary Micromass Limited ("Micromass"), the Company is a market leader in mass spectrometry, which can be integrated and used along with other analytical instruments, especially HPLC.

Sales grew by 19% in 1997 and by 17% in 1996. Sales growth accelerated as a result of increased customer demand for new HPLC products and the effect of acquisitions. Excluding 1997 nonrecurring charges related to the purchase of Micromass and 1996 nonrecurring charges related to the purchase of TAI, operating income for the year ended December 31, 1997 was \$92.7 million, a 30% increase over the \$71.2 million generated in 1996. Excluded 1997 nonrecurring charges were as follows: \$16.5 million of revaluation of acquired inventory and \$55.0 million of expensed in-process research and development. 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. Earnings per diluted common share excluding nonrecurring charges were \$1.94 in 1997, a 39% increase over the \$1.40 in 1996.

During 1997, approximately 61% 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.

RECENT EVENTS

On September 23, 1997 the Company acquired all of the capital stock of Micromass, a company headquartered in Manchester, England, for approximately \$175 million in cash, common stock and promissory notes. The acquisition principally was financed through borrowings under the Company's Bank Credit Agreement. Micromass develops, manufactures, and distributes mass spectrometry instruments, products that are complementary to the Company's existing product offering. Micromass offers products ranging from high-end stand-alone instruments to smaller, easier-to-use detectors that can be integrated and used along with other analytical instruments, especially HPLC. Micromass is a global market leader in the field of mass spectrometry. Net sales for Micromass were approximately \$91 million in 1996.

On September 4, 1997, the Company increased the maximum availability under its Bank Credit Agreement to \$450 million in order to finance the acquisition of Micromass.

On July 31, 1997, the Company acquired all of the capital stock of YMC, Inc. ("YMC"), a U.S. based company, for approximately \$9 million in cash. YMC is a manufacturer and distributor of chromatography chemicals and supplies which augment the Company's consumables business. YMC's 1996 revenues were approximately \$6.5 million.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

NET SALES

Net sales for 1997 were \$465.5 million, compared with \$391.1 million for the year ended December 31, 1996, an increase of 19%. Excluding the adverse effects of a stronger U.S. dollar, net sales increased by 24% in 1997. The Company's core HPLC business grew by 10%, while the impact of acquired companies resulted in the remaining 14% points of growth. HPLC growth was generally broad-based across geographies and end-user markets, but particularly strong in the U.S. and Europe. Pharmaceutical customer demand was especially strong across all geographies. The Company's sales of thermal analysis products grew strongly as well.

GROSS PROFIT

Gross profit for 1997 was \$275.7 million compared to \$239.8 million for 1996, an increase of \$35.9 million or 15% over the comparable period of the prior year. Excluding nonrecurring charges for revaluation of acquired inventory related to purchase accounting for acquisitions (\$16.5 million related to Micromass in 1997 and \$6.1 million related to TAI in 1996), gross profit increased by 19% in 1997. Gross profit as a percentage of sales excluding revaluation charges decreased to 62.8% in 1997 from 62.9% in 1996 reflecting the inclusion of Micromass' results after its September 1997 acquisition. (Micromass' gross margins are lower than Waters' historical gross margins, but its operating expenses are commensurately lower, and its operating margins are comparable to those of Waters.)

WATERS CORPORATION AND SUBSIDIARIES

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for 1997 were \$167.3 million, compared to \$148.5 million for 1996. As a percentage of net sales, selling, general and administrative expenses decreased to 36% for 1997 from 38% for 1996, reflecting continued emphasis on expense controls. The \$18.8 million or 13% increase in total expenditures is primarily the result of including the expenses of acquired companies.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses were \$25.8 million for 1997 compared to \$20.9 million for 1996, a \$4.9 million or 23% increase from prior year levels. Current year spending increased with the addition of acquired company spending. The Company continues to invest significantly in the development of new and improved HPLC detection, consumable and data products, thermal analysis and rheology products, and newly acquired mass spectrometry products.

GOODWILL AND PURCHASED TECHNOLOGY AMORTIZATION

Goodwill and purchased technology amortization for 1997 was \$6.5 million, an increase of \$1.3 million from the prior year. This increase was primarily related to the acquisition of Micromass and the inclusion of full-year goodwill amortization on the 1996 TAI acquisition.

EXPENSED IN-PROCESS RESEARCH AND DEVELOPMENT

In 1997, the Company expensed \$55 million of the purchase price for Micromass related to acquired in-process research and development, which had not reached technological feasibility and had no alternative future use.

OPERATING INCOME

Operating income for 1997 was \$21.2 million, a decrease of \$24.6 million from the prior year. This decrease reflected \$71.5 million of non-recurring charges related to the Micromass acquisition (\$16.5 million of revaluation of acquired inventory and \$55 million of expensed in-process research and development). Excluding revaluation of acquired inventory and expensed in-process research and development charges in both 1997 and 1996, operating income was \$92.7 million for the year ended December 31, 1997 and represented a \$21.5 million or 30% increase over 1996. Waters improved operating income levels in 1997 on the strength of sales growth, volume leverage, continued focus on cost reduction in all operating areas and the accretive impact of acquisitions.

INTEREST EXPENSE, NET

Net interest expense decreased by \$1.0 million or 7%, from \$14.7 million in 1996 to \$13.7 million in 1997. The current year decrease reflected reduced debt levels for the first nine months of 1997 and more favorable interest rates under the Bank Credit Agreement, partially offset by the impact of increased debt levels in the fourth quarter of 1997 due to the Micromass acquisition.

PROVISION FOR INCOME TAXES

The Company's effective income tax rate, excluding nonrecurring, nondeductible charges related to the revaluation of acquired inventory and expensed in-process research and development, was 20% in 1997 compared to 19.9% in 1996.

(LOSS) FROM OPERATIONS

Loss from operations for 1997 was \$(8.3) million, compared to \$19.9 million in income for 1996. Excluding nonrecurring charges in both years for the revaluation of acquired inventory and expensed in-process research and development, the Company generated \$63.2 million of income in 1997 compared to \$45.3 million in 1996. The improvement over the prior year was a result of sales growth, continued focus on cost reductions in all operating areas and the accretive impact of acquisitions.

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

NET SALES

Net sales for 1996 were \$391.1 million, compared to \$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%. Growth was 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/TM/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.

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WATERS CORPORATION AND SUBSIDIARIES

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 \$.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.

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. 1996 spending increased with new HPLC product development programs and the addition of TAI's research and development expenses. In 1996, Waters introduced its new Alliance/TM/ systems and a variety of other new products. The Company continued 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, which had not reached technological feasibility and had no alternative future use.

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 initial public offering ("IPO").

OPERATING INCOME

Operating income for 1996 was \$45.8 million, a decrease of \$.6 million from the prior year. This decrease reflected \$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, a nonrecurring 1995 accelerated compensatory stock option vesting charge of \$3.6 million, and 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 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 its IPO, the Company retired \$25 million of Senior Subordinated Notes, and retired all outstanding indebtedness under its senior credit facility dated August 18, 1994 with proceeds from the IPO and the 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 Bank Credit Agreement. The 1996 interest expense decrease reflected the reduced debt levels and more favorable interest rates under the Bank Credit Agreement.

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WATERS CORPORATION AND SUBSIDIARIES

UNREALIZED LOSSES 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.

INCOME FROM OPERATIONS

Income from 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 its IPO. The Company utilized the net proceeds from its IPO, its 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.

LIQUIDITY AND CAPITAL RESOURCES

During 1997, net cash provided by the Company's operating activities was \$96.4 million, primarily as a result of net income for the period after adding back the nonrecurring non-cash charges, and depreciation and amortization. Primary uses of cash flows during the year were \$151.1 million used to acquire Micromass (net of cash acquired and common stock issued), \$8.7 million used to acquire YMC and \$23.4 million invested in property, plant and equipment and software capitalization.

In September 1997, the Company amended its Bank Credit Agreement increasing maximum availability to \$450 million. This increase was used to finance the acquisition of Micromass.

In September 1997, the Company entered into an interest rate swap agreement with Bankers Trust Company expiring December 31, 2001. The Company swapped \$82 million in 1997 (\$135 million in 1998, \$151 million in 1999, \$143 million in 2000 and \$93 million in 2001) in notional amount of floating rate LIBOR borrowings for an equivalent notional amount of borrowings at a fixed interest rate of 6.3%. At December 31, 1997, the fair value of this agreement was a loss of \$1.6 million.

In June 1997, the Company amended its Bank Credit Agreement reducing its LIBOR-based interest rates by 25 basis points and relaxing certain debt covenants.

In May 1997, the Company entered into a one-year debt swap agreement with Bankers Trust Company to hedge the U.S. dollar value of its investment in the net assets of its Canadian subsidiary and certain European subsidiaries, effective in January 1998. The Company swapped \$33.2 million in notional amount of floating rate LIBOR borrowings for equivalent notional amounts of borrowings in Canadian dollars and five European currencies at fixed interest rates averaging approximately 2.4% per annum. At representative interest rates and currency exchange rates in effect at May 2, 1997, the transaction date of the agreement, 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. At currency exchange rates in effect on December 31, 1997, the principal repayment amount would have been \$32.3 million.

At December 31, 1997, the Company also maintained several debt swap agreements contracted prior to 1997 to hedge the U.S. dollar value of its investment in Japanese subsidiaries. The Company swapped \$29,500 in notional amount of floating rate LIBOR borrowings for equivalent notional amounts of borrowings in Japanese yen at fixed interest rates averaging approximately 1.77% per annum. These agreements expire in 1999.

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WATERS CORPORATION AND SUBSIDIARIES

During 1996, the Company entered into several multi-year debt swap agreements with major banks to hedge the U.S. dollar value of its investment in the net assets of certain foreign subsidiaries. The Company swapped \$64.9 million in notional amount of floating rate LIBOR borrowings for equivalent notional amounts of borrowings in European and Japanese currencies at fixed interest rates averaging 2.5%. All of these debt swap agreements expired during 1997.

The Company has evaluated the impact of Year 2000 issues on its existing systems. The Company expects that the impact will not be material.

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

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 of the predecessor HPLC business of Millipore Corporation ("Millipore") in August 1994, Millipore retained environmental liabilities resulting from pre-acquisition operations of the Company's facilities.

RECENT ACCOUNTING STANDARDS CHANGES

In June 1997, the Financial Accounting Standards Board issued SFAS 131, Disclosures about Segments of an Enterprise and Related information, which is effective for periods beginning after December 15, 1997. The statement establishes standards for reporting information about operating segments in annual financial statements of public business enterprises and in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

In June 1997, the Financial Accounting Standards Board issued SFAS 130, Reporting Comprehensive Income, which is effective for periods beginning after December 15, 1997. The statement establishes standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. The statement requires that all components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

While management has not determined the impact of the new above-mentioned standards, they are not expected to be material to the Company.

In February 1997, the Financial Accounting Standards Board issued SFAS 128, Earnings Per Share, which is effective for periods ending after December 15, 1997. The statement changes computational guidelines and disclosure requirements for earnings per share. The Company has adopted SFAS 128 in the accompanying financial statements and has restated all prior period earnings per share data.

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, changes in the healthcare market and the pharmaceutical industry, changes in distribution of the Company's products, and interest rate and foreign exchange fluctuations.

WATERS CORPORATION AND SUBSIDIARIES

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, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's 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, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

WATERS CORPORATION AND SUBSIDIARIES

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31	(In thousands, except per share data)	1997	1996
Assets			
Current assets:			
Cash and cash equivalents		\$ 3,113	\$ 639
Accounts receivable, less allowances for doubtful accounts of \$2,785 and \$1,712 at December 31, 1997 and 1996, respectively		111,022	88,112
Inventories		87,375	47,351
Other current assets		11,614	7,930
		-----	-----
Total current assets		213,124	144,032
Property, plant and equipment, net		88,668	74,777
Other assets		70,089	36,058
Goodwill, less accumulated amortization of \$7,543 and \$4,818 at December 31, 1997 and 1996, respectively		180,178	110,635
		-----	-----
Total assets		\$ 552,059	\$ 365,502
		=====	=====
Liabilities and Stockholders' Equity			
Current liabilities:			
Notes payable and current portion of long term debt		\$ 7,394	\$ 1,736
Accounts payable		33,061	17,509
Deferred revenue and customer advances		25,289	10,491
Accrued retirement plan contributions		3,426	2,787
Accrued income taxes		9,400	1,700
Accrued other taxes		4,597	4,951
Other current liabilities		87,489	43,631
		-----	-----
Total current liabilities		170,656	82,805
Long term debt		305,340	210,470
Redeemable preferred stock		8,096	7,153
Other liabilities		5,670	7,294
		-----	-----
Total liabilities		489,762	307,722
Stockholders' Equity:			
Common stock, par value \$0.01 per share 50,000 shares authorized, 29,583 and 28,923 shares issued and outstanding at December 31, 1997 and 1996, respectively		296	289
Additional paid-in capital		161,476	145,717
Deferred stock option compensation		(606)	(826)
Accumulated deficit		(96,096)	(87,808)
Translation adjustments		(2,773)	408
		-----	-----
Total stockholders' equity		62,297	57,780
		-----	-----
Total liabilities and stockholders' equity		\$ 552,059	\$ 365,502
		=====	=====

</TABLE>

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

WATERS CORPORATION AND SUBSIDIARIES

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31	(In thousands, except per share data)	1997	1996	1995
Net sales		\$ 465,470	\$ 391,113	\$ 332,972
Cost of sales		173,275	145,254	126,216
Revaluation of acquired inventory		16,500	6,100	925

Source: WATERS CORP /DE/, 10-K405, March 31, 1998

Gross profit	275,695	239,759	205,831
Selling, general and administrative expenses	167,290	148,513	132,746
Research and development expenses	25,750	20,898	17,681
Goodwill and purchased technology amortization	6,468	5,219	3,629
Expensed in-process research and development	55,000	19,300	--
Management fee	--	--	5,393
Operating income	21,187	45,829	46,382
Interest expense, net	13,720	14,740	30,315
Unrealized losses on future cash flow hedges	--	--	1,142
Realized (gains) on cash flow hedges	--	--	(2,317)
Income from operations before income taxes	7,467	31,089	17,242
Provision for income taxes	15,755	11,230	3,129
(Loss) income before extraordinary item	(8,288)	19,859	14,113
Extraordinary (loss) on early retirement of debt	--	(22,264)	(12,112)
Net (loss) income	(8,288)	(2,405)	2,001
Less: Accretion of and 6% dividend on preferred stock	942	921	902
Net (loss) income available to common stockholders	\$ (9,230)	\$ (3,326)	\$ 1,099
(Loss) income per basic common share:			
(Loss) income per common share before extraordinary item	\$ (.32)	\$.66	\$.59
Extraordinary (loss) per common share	--	(.78)	(.54)
Net (loss) income per common share	\$ (.32)	\$ (.12)	\$.05
Weighted average number of basic common shares	29,127	28,841	22,326
(Loss) income per diluted common share:			
(Loss) income per common share before extraordinary item	\$ (.32)	\$.60	\$.54
Extraordinary (loss) per common share	--	(.71)	(.49)
Net (loss) income per common share	\$ (.32)	\$ (.11)	\$.05
Weighted average number of diluted common shares and equivalents	29,127	31,628	24,582

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

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WATERS CORPORATION AND SUBSIDIARIES

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (In thousands)	1997	1996	1995
Cash flows from operating activities:			
Net (loss) income	\$ (8,288)	\$ (2,405)	\$ 2,001
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Unrealized losses on future cash flow hedges	--	--	1,142
Deferred income taxes	(5,891)	(4,200)	--
Depreciation and amortization	20,010	16,709	13,774
Amortization of debt issuance costs	1,085	1,055	2,731
Compensatory stock option expense	220	250	4,565
Expensed in-process research and development	55,000	19,300	--
Revaluation of acquired inventory	16,500	6,100	925
Extraordinary loss on early retirement of debt	--	22,264	12,112
Change in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(8,127)	(8,981)	10,212
(Increase) decrease in inventories	(2,270)	(670)	4,658
Increase (decrease) in accounts payable and other current liabilities	14,375	4,992	(1,661)
Increase (decrease) in deferred revenue and customer advances	5,375	2,541	(32)
Other, net	8,377	(1,238)	(5,224)
Net cash provided by continuing operations	96,366	55,717	45,203
Net cash provided by discontinued operations	--	--	1,039
Net cash provided by operating activities	96,366	55,717	46,242
Cash flows from investing activities:			
Additions to property, plant and equipment	(18,216)	(10,064)	(6,260)
Software capitalization and other intangibles	(5,177)	(3,758)	(3,618)
Business acquisitions, net of cash acquired	(160,985)	(83,349)	(7,469)
Loans to officers	(136)	(425)	(2,062)
Other, net	--	4,497	5,020
Net cash (used in) investing activities by continuing operations	(184,514)	(93,099)	(14,389)
Net investing activities of discontinued operations	--	--	(154)
Net cash (used in) investing activities	(184,514)	(93,099)	(14,543)
Cash flows from financing activities:			
Proceeds from long term borrowings	--	--	84,286
Proceeds from issuance of common stock	--	--	86,152
Net borrowings (repayment) of bank debt	87,452	126,902	(175,000)
Retirement of Senior Subordinated Notes	--	(91,219)	(28,188)
Dividend paid	--	--	(16,195)
Proceeds from stock option plans	2,491	1,322	--
Other, net	1,113	(2,282)	3,098

Source: WATERS CORP /DE/, 10-K405, March 31, 1998

Net cash provided by (used in) financing activities	91,056	34,723	(45,847)
Effect of exchange rate changes on cash and cash equivalents	(434)	65	642
Increase (decrease) in cash and cash equivalents	2,474	(2,594)	(13,506)
Cash and cash equivalents at beginning of period	639	3,233	16,739
Cash and cash equivalents at end of period	\$ 3,113	\$ 639	\$ 3,233
Supplemental cash flow information:			
Income taxes paid	\$ 10,022	\$ 3,401	\$ 1,924
Interest paid	\$ 12,754	\$ 15,941	\$ 30,370
Supplemental noncash transactions:			
Issuance of common stock for acquisition	\$ 11,241	--	\$ --
Issuance of debt for acquisition	\$ 9,975	--	\$ --
Income tax benefit related to stock option plans	\$ 2,976	--	\$ --

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

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WATERS CORPORATION AND SUBSIDIARIES

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)	Common Stock	Additional Paid-in Capital	Deferred Stock Option Compensation	Warrants	Notes Receivable	Accumulated Deficit
Balance December 31, 1994	\$ 215	\$ 67,494	\$ --	\$ 3,200	\$ (5,055)	\$ (87,404)
Net income	--	--	--	--	--	2,001
Translation adjustment	--	--	--	--	--	--
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)	--	--	(86,403)
Net (loss)	--	--	--	--	--	(2,405)
Translation adjustment	--	--	--	--	--	--
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)
Net (loss)	--	--	--	--	--	(8,288)
Translation adjustment	--	--	--	--	--	--
Accretion of preferred stock	--	(342)	--	--	--	--
Dividend payable on preferred stock	--	(600)	--	--	--	--
Issuance of common stock for acquisition	3	11,238	--	--	--	--
Issuance of common stock for Employee Stock Purchase Plan	1	317	--	--	--	--
Compensatory stock option expense	--	--	220	--	--	--
Stock options exercised	3	2,170	--	--	--	--
Income tax benefit related to stock option plans	--	2,976	--	--	--	--
Balance December 31, 1997	\$ 296	\$ 161,476	\$ (606)	\$ --	\$ --	\$ (96,096)

(In thousands)	Cumulative Translation Adjustments	Minimum Pension Liability Adjustment	Total
Balance December 31, 1994	\$ (1,120)	\$ --	\$ (22,670)
Net income	--	--	2,001
Translation adjustment	515	--	515
Proceeds from stock offering	--	--	86,152
Accretion of preferred stock	--	--	(301)
Interest income on notes	--	--	--

Source: WATERS CORP /DE/, 10-K405, March 31, 1998

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	(605)	(404)	58,118
Net (loss)	--	--	(2,405)
Translation adjustment	1,013	--	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	408	--	57,780
Net (loss)	--	--	(8,288)
Translation adjustment	(3,181)	--	(3,181)
Accretion of preferred stock	--	--	(342)
Dividend payable on preferred stock	--	--	(600)
Issuance of common stock for acquisition	--	--	11,241
Issuance of common stock for Employee Stock Purchase Plan	--	--	318
Compensatory stock option expense	--	--	220
Stock options exercised	--	--	2,173
Income tax benefit related to stock option plans	--	--	2,976
	-----	-----	-----
Balance December 31, 1997	\$ (2,773)	\$ --	\$ 62,297
	=====	=====	=====

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

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WATERS CORPORATION AND SUBSIDIARIES

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 (the "Company") is the world's largest manufacturer, distributor and provider of high performance liquid chromatography ("HPLC") instruments, chromatography columns and other consumables, and related services. 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, a prevalent and complementary technique used in the analysis of polymers. With its September 1997 acquisition of Micromass Limited ("Micromass"), the Company is also a market leader in the development, manufacture, and distribution of mass spectrometry ("MS") instruments, which are complementary products that can be integrated and used along with other analytical instruments, especially HPLC.

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 intercompany 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 sheets.

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 1997 net sales to the pharmaceutical industry. None of the Company's individual customers account for more than 2% 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 or deposits. Historically, the Company has not experienced significant bad debt losses.

INVENTORY

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

INCOME TAXES

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities.

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 - 30 years, and production and other equipment - 3 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.

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WATERS CORPORATION AND SUBSIDIARIES

SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standard 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 \$12,006 and \$10,379 at December 31, 1997 and 1996, respectively.

PURCHASED TECHNOLOGY AND GOODWILL

Purchased technology amounts are recorded at their fair market value as of the acquisition date and amortized over estimated useful lives ranging from four to fifteen years. Goodwill is amortized on a straight-line basis over its useful life, 40 years for current goodwill components. Impairment of purchased technology amounts 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, 1997, no amounts have been determined impaired. Purchased technology amounts included in other assets totalled \$28,775 and \$6,805, net of accumulated amortization of \$6,573 and \$4,343, at December 31, 1997 and 1996, respectively.

DEBT ISSUANCE COSTS

Debt issuance costs are amortized over the life of the related debt using the effective interest method. At December 31, 1997 and 1996, debt issuance costs included in other assets amounted to \$3,501 and \$3,551, net of accumulated amortization of \$2,020 and \$935, 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 sheets.

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.

(LOSS) INCOME PER SHARE

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 128 (SFAS 128), "Earnings per Share," which is effective for periods ending after December 15, 1997. Under SFAS 128, the Company presents two earnings per share (EPS) amounts. (Loss) income per basic common share is based on income available to common shareholders and the weighted average number of common shares outstanding during the periods presented. (Loss) income per diluted common share includes additional dilution from potential common stock, such as stock issuable pursuant to the exercise of stock options outstanding and the conversion of debt. Accretion of and cumulative dividends on preferred stock have been included in computing income (loss) per share.

3 BUSINESS COMBINATIONS

MICROMASS LIMITED ACQUISITION

On September 23, 1997, the Company acquired 100% of the capital stock of Micromass Limited, a company headquartered in England, for approximately \$175,000 in cash, common stock (375 shares) and promissory notes. The acquisition principally was financed through borrowings under the Company's Bank Credit Agreement. Micromass develops, manufactures, and distributes mass spectrometry instruments, products that are complementary to Waters' existing product offering. Micromass offers products ranging from high-end stand-alone instruments to smaller, easier-to-use detectors that can be integrated and used along with other analytical instruments, especially HPLC. Micromass is a global market leader in the field of mass spectrometry. Net sales for Micromass were approximately \$76,575 for the period from January 1, 1997 to September 30, 1997 and \$91,000 for the year ended December 31, 1996.

The acquisition of Micromass was accounted for by the purchase method and the results of its operations have been consolidated with the Company's results from September 30, 1997, the effective accounting date of the acquisition. In conjunction with the acquisition, the Company recorded a non-recurring charge of \$55,000 for the write-off of acquired in-process research and development and revalued acquired inventory by \$33,000 which amount is being amortized to cost of sales over a period of approximately six months commencing October 1, 1997. The technological feasibility of in-process research and development projects had not been established at the date of acquisition and had no alternative future use. The Company recorded other intangible assets of \$24,200 and goodwill of \$66,914 which will be amortized for a period of 15 and 40 years, respectively, on a straight line basis. The Company recorded \$8,500 of reserves in conjunction with the acquisition.

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WATERS CORPORATION AND SUBSIDIARIES

YMC, INC. ACQUISITION

On July 31, 1997, the Company acquired all of the capital stock of YMC, Inc. ("YMC"), a U.S. based company for approximately \$9,000 in cash. The acquisition of YMC was accounted for by the purchase method. YMC is a manufacturer and distributor of chromatography chemicals and supplies which augment the Waters consumables business. Net sales for YMC were approximately \$4,300 for the period from January 1, 1997 to July 31, 1997 and \$6,500 for the year ended December 31, 1996.

TA INSTRUMENTS, INC. ACQUISITION

On May 1, 1996, the Company acquired all of the capital stock of TA Instruments, Inc., a U.S. based company, for approximately \$83,000 in cash. The acquisition was financed through borrowings under the 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 for the year ended December 31, 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 been established at the date of acquisition and had no alternative future use.

PRO FORMA RESULTS OF OPERATIONS

The following unaudited Pro Forma results of operations for the years ended December 31, 1997 and 1996 give effect to the Company's acquisitions as if the transactions had occurred at the beginning of each such period. The financial data are based on the historical consolidated financial statements for the Company, Micromass, YMC and TAI and include related adjustments. The Pro Forma results of operations exclude the non-recurring charges that were recorded in conjunction with the acquisitions in 1997 and 1996 and do not purport to represent (i) what the Company's results of operations actually would have been if the acquisitions 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.

	Unaudited Pro Forma Results For the Year Ended	
	December 31, 1997	December 31, 1996
Net sales	\$ 542,045	\$ 493,288
Income before extraordinary item	67,204	44,055
Net income	66,262	20,870
Income before extraordinary item per basic common share	\$ 2.25	\$ 1.48
Net income per basic common share	2.25	0.71
Income before extraordinary item per diluted common share	\$ 2.04	\$ 1.35
Net income per diluted common share	2.04	0.65

4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

December 31	1997	1996
Land	\$ 3,092	\$ 3,092
Leasehold improvements	1,469	1,083
Buildings and improvements	30,230	29,171
Production and other equipment	80,745	53,414
Construction in progress	3,206	7,746
	118,742	94,506
Less: accumulated depreciation and amortization	(30,074)	(19,729)
Property, plant and equipment, net	\$ 88,668	\$ 74,777

5 INVENTORIES

Inventories are classified as follows:

December 31	1997	1996
Raw material	\$ 22,092	\$ 14,860
Work in progress	15,315	6,180
Finished goods	33,468	26,311
Revaluation of acquired inventory	16,500	--
Total inventories	\$ 87,375	\$ 47,351

6 DEBT

In September 1997, the Company amended its Bank Credit Agreement, a revolving

credit facility, increasing maximum availability from \$300,000 to \$450,000. In June 1997, the Company amended the agreement to reduce its LIBOR-based interest rates by 25 basis points, relax certain debt covenants and extend the expiration date to June 2002. Loans under the Bank Credit Agreement bear interest for each calendar quarter at an annual rate equal to, at the Company's option, 1) the applicable LIBOR rate plus a varying margin between .38% and 1.00% or 2) a floating rate based on prime plus a varying margin between zero and .50 %. Margins vary with Company financial performance. At December 31, 1997, the Company had aggregate borrowings outstanding under the agreement of \$295,365 and approximately \$141,700 in additional borrowings available, after outstanding letters of credit. The weighted average interest rate at December 31, 1997 on the borrowings was 6.625% on LIBOR borrowings, 8.5% on base rate borrowings and 6.78% overall on aggregate borrowings. Borrowings are collateralized by substantially all of the Company's assets. The Company is also required to meet certain covenants, none of which is considered restrictive to operations. The Company was in compliance with all covenants as of December 31, 1997. The Company's foreign subsidiaries also had available short-term lines of credit totaling \$29,804 at December 31, 1997 and \$8,545 at December 31, 1996. At December 31, 1997 and 1996, related borrowings were \$7,319 at a weighted average interest rate of 4.3% and \$1,736 at a weighted average interest rate of 7.1%, respectively.

Also, in September 1997, the Company entered into an interest rate swap agreement with Bankers Trust Company expiring December 31, 2001. The Company swapped \$82,000 in 1997 (\$135,000 in 1998, \$151,000 in 1999, \$143,000 in 2000 and \$93,000 in 2001) in notional amount of floating rate LIBOR borrowings for an equivalent notional amount of borrowings at a fixed interest rate of 6.3%. At December 31, 1997, the fair value of this agreement was a loss of \$1,616. The Company also maintains several interest rate protection agreements contracted prior to 1997. The agreements provide payments to the Company if the three-month LIBOR rate exceeds 6.5% in 1998 and 1999 on borrowings of \$70,000 and \$30,000, respectively. At December 31, 1997, the fair value of the agreements was \$74.

In May 1997, the Company entered into a one-year debt swap agreement with Bankers Trust Company to hedge the U.S. dollar value of its investment in the net assets of its Canadian subsidiary and certain European subsidiaries, effective in January 1998. The Company swapped \$33,200 in notional amount of floating rate LIBOR borrowings for equivalent notional amounts of borrowings in Canadian dollars and five European currencies at fixed interest rates averaging approximately 2.4% per annum. At representative interest rates and currency exchange rates in effect at May 2, 1997, the transaction date of the agreement, the Company lowered its annual interest costs by approximately \$1,134 over the term of the swap agreement. The Company could incur higher or lower principal payments over the term of the swap agreement. At currency exchange rates in effect on December 31, 1997, the principal repayment amount would have been \$32,300. At December 31, 1997, the Company also maintained several debt swap agreements contracted prior to 1997 to hedge the U.S. dollar value of its investment in Japanese subsidiaries. The Company swapped \$29,500 in notional amount of floating rate LIBOR borrowings for equivalent notional amounts of borrowings in Japanese yen at fixed interest rates averaging approximately 1.77% per annum. These agreements expire in 1999. At currency exchange rates on December 31, 1997, the principal repayment amount would have been \$24,189. (During 1997, several multi-year debt swap agreements expired which were initiated in 1996 with major banks to hedge the U.S. dollar value of its investment in the net assets of certain foreign subsidiaries. The total notional amount of these agreements totaled \$64,900 of floating rate LIBOR borrowings for equivalent notional amounts in European and Japanese currencies of borrowings at fixed interest rates averaging 2.5%.)

Contemporaneously with the Company's initial public offering ("IPO") in 1995, the Company retired all outstanding indebtedness under its prior bank credit agreement and redeemed \$25,000 of its prior outstanding \$100,000 of Senior Subordinated Notes. The Company recorded a \$12,112 extraordinary loss for the write-off of associated unamortized debt issuance costs, call premium paid and interest rate protection premiums cancelled. In April 1996, the Company consummated a tender offer to repurchase the remaining \$75,000 of Senior Subordinated Notes outstanding. The Company recorded an extraordinary loss of \$22,264 related to this early extinguishment.

WATERS CORPORATION AND SUBSIDIARIES

7 INCOME TAXES

Income tax data for 1997, 1996, and 1995 follow in the tables below:

Year Ended December 31 (In thousands)	1997	1996	1995
The components of income (loss) from operations before income taxes were as follows:			
Domestic	\$ 64,751	\$ 33,534	\$ 18,322
Foreign	(57,284)	(2,445)	(1,080)
Total	\$ 7,467	\$ 31,089	\$ 17,242

The components of the current and deferred income tax provision from operations were as follows:			
Current	\$ 20,280	\$ 15,430	\$ 3,129
Deferred	(4,525)	(4,200)	--
Total	\$ 15,755	\$ 11,230	\$ 3,129

The components of the provision for income taxes from operations were as follows:			
Federal	\$ 9,383	\$ 4,576	\$ --
State	878	900	300
Foreign	5,494	5,754	2,829
Total	\$ 15,755	\$ 11,230	\$ 3,129

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	\$ 2,613	\$ 10,881	\$ 6,035
Foreign sales corporation	(1,826)	--	--
State income tax, net of federal income tax benefit	570	585	300

Deferred tax assets (benefited)	(12,307)	(16,823)	(6,271)
Net effect of foreign operations	1,005	7,339	2,858
Nondeductible acquisition costs	25,025	8,890	--
Other	675	358	207
Provision for income taxes	\$ 15,755	\$ 11,230	\$ 3,129

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	\$ (2,516)	\$ (3,995)	\$ --
Estimated loss on disposal of discontinued operations	--	(991)	(1,900)
Goodwill amortization	(10,866)	(11,731)	(12,808)
Depreciation and capitalized software	4,629	3,919	3,357
Deferred compensation	(3,605)	(2,344)	(1,840)
Tax credit carryforwards	(1,300)	(1,221)	(1,221)
Other	(2,896)	(3,756)	(2,056)
Net operating loss carryforward	(2,833)	(16,905)	(17,704)
Valuation allowance	9,296	32,824	34,172
Total deferred taxes	\$ (10,091)	\$ (4,200)	\$ --

At December 31, 1997 the Company had a U.S. net operating loss carryforward of approximately \$1,400 which begins to expire in the year 2009. The Company had foreign net operating loss carryforwards of approximately \$6,500, 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 \$(10,091) 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 acquired net operating loss carryforward tax benefit of \$2,516 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 year ended December 31, 1997 was 20%.

WATERS CORPORATION AND SUBSIDIARIES

8 LEASES

Lease agreements, expiring at various dates through 2019, cover buildings, office equipment and automobiles. Rental expense was approximately \$8,666 in 1997, \$6,474 in 1996 and \$5,684 in 1995. Future minimum rents payable as of December 31, 1997 under non-cancelable leases with initial terms exceeding one year were as follows:

1998	\$ 9,203
1999	7,103
2000	5,109
2001	2,937
2002	2,237
Thereafter	12,876

9 COMMON STOCK

Prior to the Company's initial public offering in November 1995, 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 ("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. 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. The Company issued 6,250 shares of Common Stock in its IPO for net proceeds of \$86,152.

As a publicly held company, the Company hasn't paid any dividends, and does not plan to pay any dividends in the foreseeable future.

10 REDEEMABLE PREFERRED STOCK

In conjunction with the August 18, 1994 acquisition of the predecessor HPLC business of Millipore Corporation ("Millipore"), the Company authorized and issued one hundred shares of Redeemable Preferred Stock ("Preferred Stock") with a par value of \$.01 per share. The Preferred Stock has a liquidation value of \$10,000 and earns an annual 6% cumulative dividend on 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, 1997, 1996, and 1995, \$342, \$321, and \$301, respectively, were charged against additional paid-in capital for accretion and \$600 was charged in each year to additional paid-in capital for the unpaid dividends. At December 31, 1997, the total liquidation value was \$12,022.

11 STOCK COMPENSATION AND PURCHASE PLANS

BASIS OF ACCOUNTING

The Company has four stock-based compensation plans, which are described below. The Company uses the intrinsic value method of accounting prescribed by the Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees", and related interpretations for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan under SFAS 123. 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 alternative method prescribed by SFAS 123, the Company's pro forma net (loss)\income for 1997, 1996 and 1995, would have been \$(10,821), \$(4,324), and \$1,105. Basic (loss) income per share for 1997, 1996, and 1995 would have been \$(0.37), \$(0.15), and \$0.05, respectively. Diluted (loss) income per share for 1997, 1996, and 1995 would have been \$(0.37), \$(0.14), and \$0.05, respectively. The pro forma amounts include amortized fair value attributable to options granted after December 31, 1994 only and therefore, 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:

	1997	1996	1995
	-----	-----	-----
Options issued	499	358	663
Risk-free interest rate	5.8%	6.4%	7.0%
Expected life in years	7.2	7.4	7.5
Expected volatility	0.609	0.674	0.693
Expected dividends	0	0	0

WATERS CORPORATION AND SUBSIDIARIES

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

	1997	1996	1995
	-----	-----	-----
Options exercise prices are less than the market price			
Exercise price	\$ 31.50		\$ 9.50
Fair value	\$ 13.50		\$ 10.51
Options exercise prices are equal to the market price			
Exercise price	\$ 42.75		\$ 4.07
Fair value	\$ 29.15		\$ 3.07
Options 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, 1997 by range of exercise prices:

Exercise Price Range	Number of Shares Outstanding	Exercise Price	Remaining Contractual Life of Options Outstanding	Number of Shares Exercisable	Exercise Price
-----	-----	-----	-----	-----	-----
\$ 0.00 to \$ 5.00	940	\$ 4.00	8 years	474	\$ 4.00
\$ 5.01 to \$10.00	1,205	\$ 9.50	7 years	1,054	\$ 9.50
\$ 10.01 to \$20.00	2,477	\$ 16.28	7 years	1,428	\$ 16.28
\$ 20.01 to \$40.00	355	\$ 34.14	8 years	72	\$ 34.21
\$ 40.01 to \$50.00	483	\$ 42.73	10 years	0	\$ 0.00
	-----			-----	
	5,460			3,028	
	=====			=====	

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, in the form of incentive or non-qualified stock options, stock appreciation rights ("SARs"), restricted stock or 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. On December 2, 1997, the Board of Directors approved an additional 2,000 shares of Common Stock for issue under the 1996 Plan. 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 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, 1997.

The Company's 1994 Stock Option Plan ("1994 Plan") provided for the granting of 205 common stock options to certain key employees of the Company. Stock options under the 1994 Plan allowed the purchase of Class A Common Stock of the Company. Concurrent with the Reclassification of the Company's stock, 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 was determined by a committee of the Board of Directors 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.

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. 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.

WATERS CORPORATION AND SUBSIDIARIES

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

	Weighted Average Exercise Price	Number of Shares	Price Per Share
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
Granted	\$ 42.40	499	\$32.20 to \$42.75
Exercised	\$ (7.90)	(265)	\$ 4.00 to \$34.21
Canceled	\$ (20.05)	(36)	\$ 9.50 to \$34.21
Outstanding at December 31, 1997	\$ 16.19	5,460	\$ 4.00 to \$42.75

Options exercisable at December 31, 1997, 1996, and 1995 were 3,028, 2,439, and 1,780, respectively. The weighted average exercise price of options exercisable at December 31, 1997, 1996, and 1995 were \$12.43, \$11.30, and \$10.76, respectively. Available stock options for grant at December 31, 1997 were 2,236.

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, 1997, approximately 28 shares have been issued under the plan. Each plan period lasts three months beginning on January 1, April 1, July 1, and October 1 of each year. The purchase price for each share of stock is the lesser of 90% of the market price on the first day of the plan period or 100% of the market price on the last day of the plan period. No compensation expense is recorded in connection with the plan.

12 WARRANT

On August 18, 1994, the date of the Company's inception and its acquisition of the predecessor HPLC business of Millipore, 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 financing under its 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. The estimated fair market value of \$3,200 for the Warrant was recorded as a component of stockholders' equity.

After the Reclassification of common stock, the Warrant allowed for the purchase of 1,064 shares 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

13 EARNINGS PER SHARE

SFAS 128, which now governs earnings per share computation, requires the following reconciliation of the basic and diluted EPS calculations:

Year Ended 1997		
Income (Numerator)	Shares (Denominator)	Per Share Amount

Net (loss)	\$	(8,288)		
Less: Accretion of and 6% dividend on preferred stock		942		
(Loss) per basic common share from operations	\$	(9,230)	29,127	\$ (.32)
Effect of dilutive securities			--	
(Loss) per diluted common share from operations	\$	(9,230)	29,127	\$ (.32)

Year Ended 1996

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income before extraordinary item	\$ 19,859		
Less: Accretion of and 6% dividend on preferred stock	921		
Income per basic common share from operations	\$ 18,938	28,841	\$.66
Effect of dilutive securities:			
Options outstanding		2,765	
Options exercised		22	
Income per diluted common share from operations	\$ 18,938	31,628	\$.60

Year Ended 1995

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income before extraordinary item	\$ 14,113		
Less: Accretion of and 6% dividend on preferred stock	902		
Income per basic common share from operations	\$ 13,211	22,326	\$.59
Effect of dilutive securities:			
Options outstanding		1,315	
Options cancelled		1	
Warrant		940	
Income per diluted common share from operations	\$ 13,211	24,582	\$.54

As of December 31, 1997, 1996, and 1995, the Company had 5,460, 350, and 2,560 stock option securities that were antidilutive, respectively. These securities could potentially dilute basic EPS in the future, and were not included in the computation of diluted EPS because to do so would have been antidilutive for the periods presented.

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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.

At December 31, 1996, the Company had \$3,342 of outstanding forward exchange contracts, which hedged the dollar value equivalent of specified future customer commitments. No contracts were outstanding at December 31, 1997.

15 RETIREMENT PLANS

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. The Waters Employee Investment Plan includes amounts transferred, and to be transferred, from the predecessor retirement plans of Millipore Corporation, parent of the predecessor HPLC business acquired by the Company in August 1994.

The Company has asserted a claim contending that Millipore Corporation has understated the amount of assets it is obligated to transfer from the Millipore

Retirement Plan to the Waters successor plan. The Federal court has recently ruled in favor of Millipore's position with respect to the claim. The Company appealed the decision in October, 1997. The Company believes it has meritorious arguments and should prevail although the outcome is not certain. Regardless, the outcome is not expected to have a material impact on the Company's financial position.

Employees are eligible to participate after one month of service. Employees may contribute from 1% to 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. Employees are 100% vested in company matching contributions after one year of service. For the years ended December 31, 1997 and December 31, 1996, the Company's matching contributions amounted to \$1,347 and \$1,318, 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 and for 1997 were \$212.

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. 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 started with an account balance 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, 1997 and 1996 are presented in the following table (these amounts include the TAI Pension Plan as of December 31, 1996):

December 31	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$13,156 and \$9,127, respectively	\$ (13,834)	\$ (9,305)
Projected benefit obligation for service rendered to date	\$ (15,904)	\$ (10,552)
Estimated plan assets at fair value	16,008	13,988
Projected benefit obligation less than fair value of assets	104	3,436
Unrecognized prior service costs	(1,423)	(734)
Unrecognized net actuarial (gain) loss	(1,183)	(3,910)
(Accrued) pension cost included in the financial statements	\$ (2,502)	\$ (1,208)

Year Ended December 31	1997	1996	1995
Net periodic pension cost includes the following components:			
Service cost	\$ 2,043	\$ 2,025	\$ 1,780
Interest cost	1,054	938	321
Return on plan assets	(1,653)	(700)	(137)
Amortization and deferral	326	(5)	(8)
Net periodic pension cost	\$ 1,770	\$ 2,258	\$ 1,956

The projected benefit obligation was calculated using the following assumptions:

Discount rate	7.25%	7.75%	7.25%
Return on assets	9.00%	8.50%	8.50%
Increases in compensation levels	4.75%	4.75%	4.50%

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. Summary

information is presented in the following tables:

Year Ended December 31	1997	1996	1995
Service cost-benefits attributed to service during the year	\$ 102	\$ 95	\$ 82
Interest cost on accumulated post retirement benefit obligation	87	69	64
Net amortization and deferral	(78)	(83)	(83)
Net periodic post retirement benefit cost	\$ 111	\$ 81	\$ 63

December 31	1997	1996
Accumulated post-retirement benefit obligation:		
Retirees	\$ 255	\$ 137
Fully eligible active plan participants	136	229
Other active plan participants	839	682
Unrecognized amounts:		
Prior service costs	1,312	1,348
Net (gain) loss	(54)	33
Accrued post retirement benefit cost	\$ 2,488	\$ 2,429

The Company's accrued post-retirement benefit obligation was \$2,488 and \$2,429 at December 31, 1997 and 1996, respectively, and is included in other liabilities in the balance sheet. The discount rate used in determining the accumulated post-retirement benefit obligation was 7.25% and 7.75% as of December 31, 1997 and 1996, 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 1996 loans bear interest at 5.65% per annum and mature on January 8, 2001. Loans receivable of \$2,623 at December 31, 1997 and \$2,487 at December 31, 1996 are included in other assets in the balance sheet. Loans receivable at December 31, 1995 were \$2,062.

In connection with the acquisition of the predecessor HPLC business on August 18, 1994, 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 Transition was substantially complete as of December 31, 1996. The Company believes that the costs incurred under the Transition Agreement were representative of charges that would have been levied by independent third parties for similar services. The Company incurred net expenses pursuant to this agreement of \$1,273, \$4,165, and \$5,210 for the years ended December 31, 1997, 1996, and 1995, respectively.

During the years ended December 31, 1997, 1996, and 1995, the Company sold product and services totaling \$32, \$86, and \$104, respectively, to Millipore.

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 year ended December 31, 1995 was \$254.

Again, in connection with the acquisition of the predecessor HPLC business, the Company entered into a ten-year Management Services Agreement with AEA Investors, Inc. and Bain Capital, Inc. pursuant to which it 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 on August 18, 1994. In connection with the Company's IPO in November 1995, 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.

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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 Central Europe. Transfer sales between geographical areas are generally made at a discount from list price.

	United States	Europe	Japan	Asia	Other Int'l	Elimination	Total

1997							
Sales:							
Unaffiliated sales	\$ 182,258	\$ 140,900	\$ 46,077	\$ 29,635	\$ 35,538	\$ --	\$ 434,408
Unaffiliated export sales to Japan	3,421	4,060	--	--	--	--	7,481
Unaffiliated export sales to Asia	7,536	1,320	--	--	--	--	8,856
Unaffiliated export sales to Other Int'l	14,284	441	--	--	--	--	14,725
Transfers between areas	131,441	12,471	--	--	--	(143,912)	--
Total sales	\$ 338,940	\$ 159,192	\$ 46,077	\$ 29,635	\$ 35,538	\$ (143,912)	\$ 465,470
Income from operations	\$ 76,625	\$ (56,093)	\$ 9	\$ (225)	\$ 871	\$ --	\$ 21,187
Total assets	\$ 599,642	\$ 263,135	\$ 25,281	\$ 7,094	\$ 16,835	\$ (359,928)	\$ 552,059

1996							
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

1995							
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

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WATERS CORPORATION AND SUBSIDIARIES

19 QUARTERLY RESULTS

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total

Net sales	\$ 102,431	\$ 106,240	\$ 105,044	\$ 151,755	\$ 465,470
Cost of sales	37,765	38,703	38,598	58,209	173,275
Revaluation of acquired inventory	--	--	--	16,500	16,500
Gross profit	64,666	67,537	66,446	77,046	275,695

Source: WATERS CORP /DE/, 10-K405, March 31, 1998

Selling, general and administrative expenses	39,076	38,909	39,008	50,297	167,290
Research and development expenses	5,786	5,806	6,259	7,899	25,750
Goodwill and purchased technology amortization	1,357	1,415	1,444	2,252	6,468
Expensed in-process research and development	--	--	55,000	--	55,000
Operating income (loss)	18,447	21,407	(35,265)	16,598	21,187
Interest expense, net	3,024	2,959	2,334	5,403	13,720
Income (loss) from operations before income taxes	15,423	18,448	(37,599)	11,195	7,467
Provision for income taxes	3,085	3,689	3,480	5,501	15,755
Net income (loss)	12,338	14,759	(41,079)	5,694	(8,288)
Less: Accretion of and dividend on preferred stock	234	234	237	237	942
Net income (loss) available to common stockholders	\$ 12,104	\$ 14,525	\$ (41,316)	\$ 5,457	\$ (9,230)
Net income (loss) per basic common share	\$.42	\$.50	\$ (1.42)	\$.18	\$ (.32)
Weighted average number of basic common shares	28,927	28,957	29,074	29,551	29,127
Net income (loss) per diluted common share	\$.38	\$.46	\$ (1.42)	\$.17	\$ (.32)
Weighted average number of diluted common shares and equivalents	31,867	31,560	29,074	32,936	29,127
Stock price range	26-31 3/8	23 1/8-37 3/4	31 7/16-45 1/4	36-48 7/16	26-48 7/16

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
Income (loss) from operations before income taxes	10,217	(6,922)	8,898	18,896	31,089
Provision for income taxes	2,042	2,932	2,502	3,754	11,230
Income (loss) from 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 income (loss) available to common stockholders	\$ 7,946	\$ (32,347)	\$ 6,165	\$ 14,910	\$ (3,326)
Basic per share information:					
Income (loss) per common share from operations	\$.28	\$ (.35)	\$.21	\$.52	\$.66
Extraordinary income (loss) per common share	--	(.77)	--	--	(.78)
Net income (loss) per common share	\$.28	\$ (1.12)	\$.21	\$.52	\$ (.12)
Weighted average number of basic common shares	28,796	28,823	28,843	28,903	28,841
Diluted per share information:					
Income (loss) per common share from operations	\$.26	\$ (.35)	\$.19	\$.47	\$.60
Extraordinary income (loss) per common share	--	(.77)	--	--	(.71)
Net income (loss) per common share	\$.26	\$ (1.12)	\$.19	\$.47	\$ (.11)
Weighted average number of diluted common shares and equivalents	30,925	28,823	31,888	31,919	31,628
Stock price range	16 3/4 - 24 5/8	24 3/8 - 33	25 1/4 - 33	25 7/8 - 33 5/8	16 3/4 - 33 5/8

	The Company				Predecessor Business (A)			
	Year Ended December 31, 1997	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	\$ 465,470	\$ 391,113	\$ 332,972	\$ 131,057	\$ 176,097	\$ 304,927	\$ 309,287	
Cost of sales	173,275	145,254	126,216	49,740	73,446	124,387	123,342	
Revaluation of acquired inventory (C)	16,500	6,100	925	38,424	--	--	--	
Gross profit	275,695	239,759	205,831	42,893	102,651	180,540	185,945	
Selling, general and administrative expenses	167,290	148,513	132,746	44,522	85,216	132,452	138,318	
Research and development expenses	25,750	20,898	17,681	6,790	13,399	18,525	19,142	
Goodwill and purchased technology amortization	6,468	5,219	3,629	1,227	--	--	--	
Expensed in-process research and development (C)	55,000	19,300	--	53,918	--	--	--	
Management fee (C)	--	--	5,393	552	--	--	--	
Restructuring Charge (C)	--	--	--	3,500	--	13,000	--	
Operating income (loss)	21,187	45,829	46,382	(67,616)	4,036	16,563	28,485	
Interest expense, net (B)	13,720	14,740	30,315	12,011	828	2,072	2,107	
(Gains) on cash flow hedges (C)	--	--	(1,175)	(923)	--	--	--	
Income (loss) from operations before income taxes	7,467	31,089	17,242	(78,704)	3,208	14,491	26,378	
Provision for income taxes	15,755	11,230	3,129	1,487	916	4,169	6,180	
(Loss) income from operations	(8,288)	19,859	14,113	(80,191)	2,292	10,322	20,198	
(Loss) income from discontinued operations, net of tax (C)	--	--	--	(7,213)	(448)	(9)	108	
(Loss) income before extraordinary item	(8,288)	19,859	14,113	(87,404)	1,844	10,313	20,306	
Extraordinary item-(loss) on early retirement of debt	--	(22,264)	(12,112)	--	--	--	--	
(Loss) income before cumulative effect of change in accounting principle	(8,288)	(2,405)	2,001	(87,404)	1,844	10,313	20,306	
Cumulative effect of change in accounting principle (C)	--	--	--	--	--	--	(2,228)	
Net (loss) income	\$ (8,288)	\$ (2,405)	\$ 2,001	\$ (87,404)	\$ 1,844	\$ 10,313	\$ 18,078	
Less: Accretion of and dividend on preferred stock	942	921	902	330	--	--	--	
Net (loss) income available to common stockholders	\$ (9,230)	\$ (3,326)	\$ 1,099	\$ (87,734)	--	--	--	
(Loss) income per basic common share:								
(Loss) income per common share before extraordinary item	\$ (.32)	\$.66	\$.59	\$ (3.74)				
(Loss) per common share from discontinued operations	--	--	--	(.34)				
Extraordinary (loss) per common share	--	(.78)	(.54)	--				
Net (loss) income per common share	\$ (.32)	\$ (.12)	\$.05	\$ (4.08)				
Weighted average number of basic common shares	29,127	28,841	22,326	21,482				
(Loss) income per diluted common share:								
(Loss) income per common share before extraordinary item	\$ (.32)	\$.60	\$.54	\$ (3.74)				
(Loss) per common share from discontinued operations	--	--	--	(.34)				
Extraordinary (loss) per common share	--	(.71)	(.49)	--				
Net (loss) income per common share	\$ (.32)	\$ (.11)	\$.05	\$ (4.08)				
Weighted average number of diluted common shares and equivalents	29,127	31,628	24,582	21,482				
BALANCE SHEET AND OTHER DATA:								
Working capital	\$ 42,468	\$ 61,227	\$ 56,385	\$ 87,357		\$ 100,528	\$ 112,905	
Total assets	\$552,059	\$365,502	\$299,816	\$ 331,598		\$ 189,592	\$ 199,513	
Long term debt, including current maturities (B)	\$305,340	\$210,470	\$158,500	\$ 275,000		\$ --	\$ --	
Redeemable preferred stock	\$ 8,096	\$ 7,153	\$ 6,232	\$ 5,330		\$ --	\$ --	
Stockholders' equity (deficit)\parent company investment	\$ 62,297	\$ 57,780	\$ 58,118	\$ (22,670)		\$ 149,095	\$ 163,157	
Employees	2,640	2,135	1,934	2,021	2,069	2,009	2,180	
Depreciation and amortization for the period	\$ 20,010	\$ 16,709	\$ 13,774	\$ 4,394	\$ 6,323	\$ 9,265	\$ 8,857	
Capital expenditures for the period	\$ 23,393	\$ 13,822	\$ 9,878	\$ 2,191	\$ 5,935	\$ 8,439	\$ 10,739	

- (A) Results of predecessor HPLC business of former parent Millipore Corporation acquired by Company on August 18, 1994.
- (B) 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.
- (C) Nonrecurring charges.

DIRECTORS

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

Joshua Bekenstein
Managing Director
Bain Capital, Inc.

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

Edward Conard
Managing Director
Bain Capital, Inc.

Dr. Laurie H. Glimcher
Professor of Immunology and Medicine
Harvard School of Public Health and Harvard Medical School

William J. Miller
Chairman and Chief Executive Officer
Avid Technology, Inc.

Thomas P. Salice
Managing Director
AEA Investors, Inc.

OFFICERS

Douglas A. Berthiaume
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, Development, and Engineering

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

BankBoston, N.A.
c/o Boston EquiServe, L.P.
P.O. Box 8040
Boston, Massachusetts 02266-8040
781-575-3120
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 12, 1998, 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
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Toll free: 800-252-4752
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WATERS

April 1, 1998

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 12, 1998 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 (i) the election of directors of the Company, (ii) the ratification of auditors for the Company and (iii) the reservation of an additional two million shares of the Company's common stock for issuance upon the exercise of stock options granted under the Company's Long-Term Performance Incentive Plan for senior executives of 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

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 12, 1998, 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 1998;
3. To ratify the reservation of an additional two million shares of the Company's common stock for issuance upon the exercise of stock options granted under the Company's Long-Term Performance Incentive Plan for senior executives of the Company; and
4. 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 23, 1998 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

April 1, 1998

WATERS CORPORATION

34 MAPLE STREET

MILFORD, MASSACHUSETTS 01757

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

MAY 12, 1998, 11:00 O'CLOCK A.M.

The Proxy is solicited by the Board of Directors of Waters Corporation (the "Company") for use at the 1998 Annual Meeting of Stockholders to be held on May 12, 1998 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 broker solicitation for a fee of \$4,500.00 plus reasonable out-of-pocket expenses. 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 23, 1998 (the "Record Date").

On the Record Date, there were 29,790,227 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 April 1, 1998. 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.

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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. Eight 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, 1998:

Douglas A. Berthiaume, 49, has served as Chairman of the Board of Directors of the Company since February 1996 and has served as President, Chief Executive Officer and a Director 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 Chairman of the Analytical and Life Science Systems Association.

Joshua Bekenstein, 39, 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.

Michael J. Berendt, Ph.D., 49, has served as a Director of the Company since March 1998 pending election by the stockholders at an annual meeting. Since November 1996, Dr. Berendt has served as Senior Vice President, Pharmaceutical Research of Bayer Corporation, Pharmaceutical Division. From January 1996 to November 1996, Dr. Berendt served as Vice President, Institute for Bone & Joint Disorders and Cancer, Bayer Corporation, Pharmaceutical Division. From October 1993 to January 1996, Dr. Berendt served as Director, Institute for Bone & Joint Disorders and Cancer, Bayer Corporation, Pharmaceutical Division. Prior to joining Bayer, Dr. Berendt served as Group Director of Drug Discovery at Pfizer, Inc., and was responsible for immunology and infectious diseases research. Dr. Berendt is a member of the Board of Directors of Onyx Pharmaceuticals, Inc., Myriad Genetics, Inc., and Connecticut's Regional Growth Partnership.

Philip Caldwell, 78, has served as a Director of the Company since August 1994. Mr. Caldwell spent 32 years at Ford Motor Company where he served as Chairman of the Board of Directors and Chief Executive Officer from 1980 to 1985 and as a Director from 1973 to 1990. He served as a Director and Senior Managing Director of Lehman Brothers Inc. and its predecessor, Shearson Lehman Brothers Holdings, Inc. from 1985 to February 1998. Mr. Caldwell is Chairman of Mettler-Toledo International Inc. and a Director of Zurich Holding Company of America, Inc., American Guarantee & Liability Insurance Company, The Mexico Fund and Russell Reynolds Associates, Inc. Mr. Caldwell has also served as a Director of The Chase Manhattan Corporation, The Chase Manhattan Bank, N.A., Digital Equipment Corporation, Federated Department Stores, Inc., Kellogg Company, CasTech Aluminum Group, Inc., Specialty Coatings International, Inc., and Zurich Reinsurance Centre, Inc.,

Edward Conard, 41, has served as a Director of the Company since August 1994. Mr. Conard has been a Managing Director of Bain since March 1993. Mr. Conard was previously a Managing Director of Wasserstein Perella and Company, an investment banking firm that specializes in mergers and acquisitions, and a Vice President of Bain & Company heading up the firm's operations practice area. Mr. Conard is a Director of Medical Specialties Group, Inc.

Laurie H. Glimcher, M.D., 46, has served as a Director of the Company since January 1998 pending election by the stockholders at an annual meeting. Dr. Glimcher has been a Professor of Immunology and Medicine at the Harvard School of Public Health and Harvard Medical School since 1990. Dr. Glimcher is a Director of Bristol-Myers Squibb Company.

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William J. Miller, 51, has served as a Director of the Company since January 1998 pending election by the stockholders at an annual meeting. Since April 1996, Mr. Miller has served as Chief Executive Officer and Chairman of the Board of Avid Corporation and since September 1996, he has served as President. From March 1992 to September 1995, Mr. Miller served as Chief Executive Officer of Quantum Corporation. From May 1992, Mr. Miller served as a member of the Board of Directors of Quantum Corporation and from September 1993 to August 1995, he served as Chairman of the Board of Directors. From 1981 to March 1992, he served in various positions at Control Data Corporation, most recently as Executive Vice President and President, Information Services. Mr. Miller is a Director of NVidia Corporation and Innovex, Inc.

Thomas P. Salice, 38, has served as a Director of the Company since July 1994. Mr. Salice is a Managing Director of AEA Investors Inc. ("AEA") and has served with AEA since May 1989. Mr. Salice is a Director of Mettler-Toledo International, Inc. and Manchester Tank & Equipment Company.

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, 1998. 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.

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. RESERVATION OF SHARES

The Board of Directors recommends that the stockholders vote FOR the ratification of the reservation (the "Reservation") of an additional two million shares of the Common Stock for issuance upon the exercise of stock options granted under the Company's Long-Term Performance Incentive Plan (the "Plan") for senior executives of the Company.

The Plan provides for the granting to employees and other key individuals who perform services for the Company and its subsidiaries ("Participants") the following types of incentive awards: stock options, stock appreciation rights, restricted stock, performance units, performance grants and other types of awards that the Compensation Committee of the Board of Directors deems to be consistent with the purposes of the Plan. In 1996, the Plan was approved, and an aggregate of 1,000,000 shares of Common Stock was reserved for issuance under the Plan. If the Reservation is ratified, an additional 2,000,000 shares of Common Stock will be reserved for issuance under the Plan. The Participants are chosen at the discretion of the Compensation Committee and currently number approximately 150.

4. 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.

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DIRECTORS MEETINGS AND COMPENSATION

DIRECTORS MEETINGS

The Board of Directors held five meetings during the year ended December 31, 1997. The Audit Committee, which currently consists of Messrs. Bekenstein, Caldwell and Salice, oversees the activities of the Company's independent auditors and recommends the engagement of auditors. 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 1997, all of the Company's directors 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 1997, the Compensation Committee and the Audit Committee each met two times.

Marc Wolpov resigned on December 19, 1997 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 eight and elected Michael J. Berendt, Ph.D, Laurie H. Glimcher, M.D. and William J. Miller to fill the vacant director positions until such time as they or their successors are elected by the stockholders at an annual meeting.

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 \$17,500 per year (other than the Chairman who, if an Outside Director, will receive an annual fee of \$30,000), \$1,000 for each Board meeting, \$750 for each committee meeting that they attend and an annual grant of 1,000 options under the Company's 1996 Non-Employee Director Stock Option Plan. 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 1997.

ANNUAL COMPENSATION

NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY (\$)	BONUS (\$)	SECURITIES UNDERLYING	
				OPTIONS (#) OF SHARES	ALL OTHER COMPENSATION (\$)
Douglas A. Berthiaume... Chairman, President and Chief Executive Officer	1997	400,000	490,000 (1)	45,000	29,484 (2) (3) (4)
	1996	299,990	352,200 (5)	38,500	22,696
	1995	275,002	548,414 (6) (7)	--	26,914
Arthur G. Caputo.....	1997	184,990	200,836 (1)	27,000	12,967 (2) (3) (4)
Senior Vice President, Sales and Marketing	1996	160,004	164,480 (5)	22,000	11,446
	1995	149,994	345,714 (6) (7)	--	15,685
Thomas W. Feller.....	1997	184,990	200,836 (1)	27,000	15,310 (2) (3) (4)
Senior Vice President, Operations	1996	160,004	164,480 (5)	22,000	13,655
	1995	155,012	352,714 (6) (7)	--	16,236
John R. Nelson.....	1997	190,008	206,264 (1)	27,000	12,712 (2) (3) (4)
Senior Vice President, Research and Develop- ment	1996	164,996	169,620 (5)	22,000	11,053
	1995	160,004	359,714 (6) (7)	--	18,086
Philip S. Taymor.....	1997	184,990	200,836 (1)	27,000	12,289 (2) (3) (4)
Senior Vice President, Finance and Administration and Chief Financial Officer	1996	160,004	164,480 (5)	22,000	10,582
	1995	149,994	395,714 (6) (7)	--	16,799

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(1) Reflects bonus earned under the Company's Pay for Performance Plan in 1997 which was paid in 1998.

(2) Includes amounts contributed for the benefit of the named executive under the Waters 401(k) Restoration Plan in 1997 as follows: Mr. Berthiaume \$22,131, Mr. Caputo \$6,890, Mr. Feller \$6,844, Mr. Nelson \$7,227 and Mr. Taymor \$6,890.

(3) Includes amounts contributed for the benefit of the named executive under the Waters Employee Investment Plan in 1997 as follows: Mr. Berthiaume \$4,569, Mr. Caputo \$4,685, Mr. Feller \$4,731, Mr. Nelson \$4,662 and Mr. Taymor \$4,685.

(4) Includes amounts contributed for the benefit of the named executive under Group Term Life Insurance in 1997 as follows: Mr. Berthiaume \$2,784, Mr. Caputo \$1,392, Mr. Feller \$3,735, Mr. Nelson \$824 and Mr. Taymor \$714.

(5) Reflects bonus earned under the Company's Pay for Performance Plan in 1996 which was paid in 1997.

(6) 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.

(7) 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.

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OPTION GRANTS IN FISCAL YEAR 1997

The following table shows information regarding stock option grants to the named executives in fiscal year 1997:

NAME	INDIVIDUAL GRANTS		POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR 10-YEAR OPTION TERM			
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	10-YEAR OPTION TERM	
					5% (\$)	10% (\$)
-----	-----	-----	-----	-----	-----	-----

Douglas A. Berthiaume...	45,000	9.01%	\$42.75	12/02/07	\$1,209,829	\$3,065,957
Arthur G. Caputo.....	27,000	5.41%	\$42.75	12/02/07	\$ 725,897	\$1,839,574
Thomas W. Feller.....	27,000	5.41%	\$42.75	12/02/07	\$ 725,897	\$1,839,574
John R. Nelson.....	27,000	5.41%	\$42.75	12/02/07	\$ 725,897	\$1,839,574
Philip S. Taymor.....	27,000	5.41%	\$42.75	12/02/07	\$ 725,897	\$1,839,574

AGGREGATED OPTION EXERCISES, HOLDINGS AND YEAR END VALUES FOR FISCAL YEAR 1997

The following table shows information regarding (i) the number of shares of Common Stock acquired upon exercise by the named executives of stock options in 1997 and the value realized thereby and (ii) the number and value of any unexercised stock options held by such executives as of December 31, 1997:

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END (#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED
				IN-THE MONEY OPTIONS AT FY-END (\$) EXERCISABLE/UNEXERCISABLE (1)
Douglas A. Berthiaume...	0	0	915,868/492,872	\$23,859,471/\$10,613,793
Arthur G. Caputo.....	0	0	343,472/196,938	\$ 8,985,626/\$ 3,937,588
Thomas W. Feller.....	25,700	\$1,100,217	317,772/196,938	\$ 8,110,284/\$ 3,937,588
John R. Nelson.....	28,950	\$1,229,999	314,522/196,938	\$ 7,999,589/\$ 3,937,588
Philip S. Taymor.....	38,700	\$1,654,581	304,772/196,938	\$ 7,667,504/\$ 3,937,588

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(1) Value is based on the closing price of the Common Stock on December 31, 1997 of \$38.125.

AMENDMENT OF 1996 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

In 1997, the Compensation Committee adopted, and the Board of Directors approved, an amendment of the Company's 1996 Non-Employee Director Stock Option Plan (the "Plan"). The amendment effected the following changes to the Plan:

(i) the annual automatic grant of options under the Plan will be made on December 1 (rather than July 1) of each year; (ii) the exercise price of options granted under the Plan will be the fair market value of shares of Common Stock on the date of grant (rather than 115% of fair market value) and (iii) certain vesting and exercise provisions affecting options granted under the Plan will be subject to the discretion of the Board of Directors.

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.

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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.

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 1997 were determined by the Committee after consideration of the Company's financial performance in fiscal year 1996, individual position and responsibilities, and general and industry market surveys for comparable positions.

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 1997.

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 Chief Executive Officer.

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, retirement plan, employee stock purchase plan and supplemental employee retirement plan.

Chief Executive Compensation

Mr. Berthiaume's 1997 annual base salary was based on the Compensation Committee's (the "Committee") evaluation of the Company's overall performance and the salaries and compensation practices of peer companies of comparable size. The Committee also considered the unusual circumstances surrounding the Company which continued from its inception as a private concern in 1994, when it acquired the predecessor business of its former parent, and its initial public offering in 1995. Mr. Berthiaume elected to take a salary

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reduction in 1994 and no base salary increase in 1995. After considering these factors, the Committee elected to increase Mr. Berthiaume's annual base salary for fiscal year 1997 to \$400,000 from \$300,000. Under the Pay for Performance Plan, the Compensation Committee awarded Mr. Berthiaume a bonus of \$490,000 for fiscal year 1997 based upon the Company's performance as compared to pre-established criteria and targets. Mr. Berthiaume received a stock option grant of 45,000 shares based on the considerations described under the Long Term Performance Incentive Plan.

Limit on Deductible Compensation

The Compensation Committee has considered the application of Section 162(m) of the Internal Revenue 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 reach 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

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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, 1997 (the last day of public trading of the Common Stock in fiscal year 1997) in the Common Stock of the Company, the NYSE Market Index and the SIC Code 3826 Index. The return of the indices is calculated assuming reinvestment of dividends during the period presented. The Company has not paid any dividends since its initial public offering. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN SINCE
THE DATE OF THE COMPANY'S INITIAL PUBLIC OFFERING,
NOVEMBER 17, 1995, AMONG WATERS CORPORATION,

NYSE MARKET INDEX AND SIC CODE INDEX

DATE	WATERS CORPORATION	NEW YORK STOCK EXCHANGE MARKET INDEX	LABORATORY ANALYTICAL INSTRUMENTS INDEX (SIC CODE 3826)
11/17/95	100.00	100.00	100.00
12/13/95	120.66	102.31	108.68
12/31/96	200.83	123.24	130.06
12/31/97	252.07	162.13	154.29

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below sets forth certain information regarding beneficial ownership of Common Stock as of March 23, 1998, 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. 825 Duportail Road Wayne, Pennsylvania 19087	3,137,900	10.53%
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	3,734,000	12.53%
Directors and Executive Officers		
Douglas A. Berthiaume (2) (3)	1,569,798	5.27%
Arthur G. Caputo (2)	415,433	1.39%
Thomas W. Feller (2) (4)	377,579	1.27%
John R. Nelson (2)	342,797	1.15%
Philip S. Taymor (2) (5) (6)	408,691	1.37%
Joshua Bekenstein (2) (7) (8)	1,350	*
Michael J. Berendt, Ph.D.	--	*
Philip Caldwell (2) (7) (8) (9)	33,740	*
Edward Conard (2) (7) (10)	1,790	*
Dr. Laurie H. Glimcher	--	*
William J. Miller	--	*
Thomas P. Salice (2) (7) (8) (10) (11)	31,346	*
All Directors and Executive Officers as a group (14 persons)	3,894,905	

* represents less than 1% of the total.

- Figures are based upon 29,790,227 shares of Common Stock outstanding as of March 23, 1998. 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.
- 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 23, 1998 as follows: Mr. Berthiaume 915,868, Mr. Caputo 293,472, Mr. Feller 277,772, Mr. Nelson 283,472, Mr. Taymor 264,772, Mr. Bekenstein 1,000, Mr. Caldwell 1,000, Mr. Conard 1,000 and Mr. Salice 1,000.
- Includes 17,250 shares held by Mr. Berthiaume's wife, Diana M. Berthiaume, 6,313 shares held in a family trust, 4,593 shares held in Mr. Berthiaume's 401K Plan and 1,059 shares held in the GST Trust account, for which shares he disclaims beneficial ownership. The trustees of the GST Trust are his spouse and another reporting person of the Company. Mr. Berthiaume gifted 100 shares to each of 5 nieces and nephews.

4. Includes 19,917 shares held by Mr. Feller's wife, for which shares he disclaims beneficial ownership.
5. Includes 19,355 shares held by Mr. Taymor's wife, for which he disclaims beneficial ownership.
6. Reporting person was named a trustee of a trust established by another reporting person of the Company. The trust holds 1,059 shares of Company stock, for which shares he disclaims beneficial ownership.
7. Reporting person elected to received deferred compensation in the form of phantom stock: Mr. Bekenstein 350.15 shares, Mr. Caldwell 957.82 shares, Mr. Conard 790.22 shares, Mr. Salice 202.47 shares.
8. Member of the Audit Committee.
9. Includes 31,782 shares held in trust for Mr. Caldwell's wife, for which shares he disclaims beneficial ownership.
10. Member of the Compensation Committee.
11. Transferred shares to an account held in joint custody with his spouse.

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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 \$2,342,332 million, to certain executive officers of the Company. These loans 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.

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.

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. Four of the Company's directors, Messrs. Conard, Salice, Caldwell and Bekenstein, filed certain reports late during the fiscal year ended December 31, 1997.

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, 1997 all of the Company's officers, directors and greater-than-ten-percent beneficial owners made all required filings.

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MATERIAL INCORPORATED BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 as filed with the Securities and Exchange Commission is hereby incorporated by reference.

STOCKHOLDER PROPOSALS

Proposals of stockholders to be presented at the 1999 Annual Meeting of Stockholders must be received by the Secretary of the Company by November 4, 1998 to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting. It is anticipated that the 1999 Annual Meeting will be scheduled on or about May 12, 1999.

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1444-PS-97

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of Waters Corporation on Form S-8 (File Nos. 333-08191 and 333-18371) of our report dated January 23, 1998, on our audits of the consolidated financial statements of Waters Corporation and Subsidiaries as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, which report is incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
March 27, 1998

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<PREFERRED-MANDATORY>	7,388	7,153
<PREFERRED>	0	0
<COMMON>	289	289
<OTHER-SE>	69,493	57,491
<TOTAL-LIABILITY-AND-EQUITY>	366,521	365,502
<SALES>	102,431	391,113
<TOTAL-REVENUES>	102,431	391,113
<CGS>	37,765	145,254
<TOTAL-COSTS>	37,765	151,354
<OTHER-EXPENSES>	46,219	193,930
<LOSS-PROVISION>	0	0
<INTEREST-EXPENSE>	3,024	14,740
<INCOME-PRETAX>	15,423	31,089
<INCOME-TAX>	3,085	11,230
<INCOME-CONTINUING>	12,338	19,859
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	(22,264)
<CHANGES>	0	0
<NET-INCOME>	12,338	(2,405)
<EPS-PRIMARY>	.42	(.12)
<EPS-DILUTED>	.38	(.11)

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<S>	<C> 9-MOS	<C> 6-MOS
<PERIOD-TYPE>		
<FISCAL-YEAR-END>	DEC-31-1996	DEC-31-1996
<PERIOD-START>	JAN-01-1996	JAN-01-1996
<PERIOD-END>	SEP-30-1996	JUN-30-1996
<CASH>	2,111	770
<SECURITIES>	0	0
<RECEIVABLES>	84,621	81,549
<ALLOWANCES>	1,443	1,562
<INVENTORY>	51,484	53,291
<CURRENT-ASSETS>	140,450	138,262
<PP&E>	91,050	87,672
<DEPRECIATION>	16,873	14,405
<TOTAL-ASSETS>	363,780	361,937
<CURRENT-LIABILITIES>	81,362	76,738
<BONDS>	226,252	236,330
<PREFERRED-MANDATORY>	6,922	6,690
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<COMMON>	289	288
<OTHER-SE>	40,452	33,191
<TOTAL-LIABILITY-AND-EQUITY>	363,780	361,937
<SALES>	279,692	181,278
<TOTAL-REVENUES>	279,692	181,278
<CGS>	103,944	67,313
<TOTAL-COSTS>	110,044	69,753
<OTHER-EXPENSES>	146,315	100,796
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<INCOME-PRETAX>	12,193	3,295
<INCOME-TAX>	7,476	4,974
<INCOME-CONTINUING>	4,717	(1,679)
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<EXTRAORDINARY>	(22,264)	(22,264)
<CHANGES>	0	0
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<S>	<C> 3-MOS	<C> YEAR
<PERIOD-TYPE>		
<FISCAL-YEAR-END>	DEC-31-1996	DEC-31-1995
<PERIOD-START>	JAN-01-1996	JAN-01-1995
<PERIOD-END>	MAR-31-1996	DEC-31-1995
<CASH>	1,825	3,233
<SECURITIES>	0	0
<RECEIVABLES>	77,352	77,600
<ALLOWANCES>	1,792	1,513
<INVENTORY>	40,376	41,459
<CURRENT-ASSETS>	121,034	127,392
<PP&E>	82,512	80,415
<DEPRECIATION>	12,235	10,154
<TOTAL-ASSETS>	295,797	299,888
<CURRENT-LIABILITIES>	71,850	70,935
<BONDS>	143,100	158,500
<PREFERRED-MANDATORY>	6,461	0
<PREFERRED>	0	0
<COMMON>	288	0
<OTHER-SE>	65,321	64,420
<TOTAL-LIABILITY-AND-EQUITY>	295,797	299,888
<SALES>	85,313	332,972
<TOTAL-REVENUES>	85,313	332,972
<CGS>	32,114	126,216
<TOTAL-COSTS>	32,114	127,141
<OTHER-EXPENSES>	39,028	159,377
<LOSS-PROVISION>	0	0
<INTEREST-EXPENSE>	3,954	30,470
<INCOME-PRETAX>	10,217	17,159
<INCOME-TAX>	2,042	3,129
<INCOME-CONTINUING>	8,175	14,030
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<EXTRAORDINARY>	0	(12,112)
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<EPS-PRIMARY>	.28	.05
<EPS-DILUTED>	.26	.05

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<S>	<C>
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<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	AUG-19-1994
<PERIOD-END>	DEC-31-1994
<CASH>	12,699
<SECURITIES>	0
<RECEIVABLES>	85,181
<ALLOWANCES>	1,798
<INVENTORY>	43,978
<CURRENT-ASSETS>	151,716
<PP&E>	73,561
<DEPRECIATION>	2,501
<TOTAL-ASSETS>	327,558
<CURRENT-LIABILITIES>	68,399
<BONDS>	269,950
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	0
<OTHER-SE>	(16,325)
<TOTAL-LIABILITY-AND-EQUITY>	327,558
<SALES>	131,057
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<CGS>	49,740
<TOTAL-COSTS>	88,164
<OTHER-EXPENSES>	110,494
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<INTEREST-EXPENSE>	12,050
<INCOME-PRETAX>	(78,728)
<INCOME-TAX>	1,487
<INCOME-CONTINUING>	(80,215)
<DISCONTINUED>	(7,213)
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(87,428)
<EPS-PRIMARY>	4.08
<EPS-DILUTED>	4.08

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