



FORM 10-K

WATERS CORP /DE/ - WAT

Filed: March 06, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2005

or

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

Commission File Number: 01-14010

Waters Corporation

(Exact name of registrant as specified in its charter)

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

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

34 Maple Street
Milford, Massachusetts 01757
(Address, including zip code, of principal executive offices)

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

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

Common Stock, par value \$0.01 per share
New York Stock Exchange, Inc.

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

None

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

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

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

Indicate by check mark 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.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

State the aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of July 2, 2005: \$5,295,924,857.

Indicate the number of shares outstanding of the registrant's common stock as of February 28, 2006: 104,519,617.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2006 Annual Meeting of Stockholders are incorporated by reference in Part III.

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

Item 1: *Business*

General

Waters Corporation, (“Waters” or the “Company”) an analytical instrument manufacturer, designs, manufactures, sells and services, through its Waters Division, high performance liquid chromatography (“HPLC”), ultra performance liquid chromatography (“UPLC”) (together with HPLC, herein referred to as (“LC”)) and mass spectrometry (“MS”) instrument systems and support products, including chromatography columns and other consumable products. These instruments are complimentary products that can be integrated together and used along with other analytical instruments. Through its TA Instruments Division (“TA”), the Company designs, manufactures, sells and services thermal analysis and rheometry instruments which are used in predicting the suitability of polymers and viscous liquids for various industrial, consumer goods and health care products. The Company is also a developer and supplier of software based products that interface with the Company’s as well as other instrument manufacturers’ instruments. The Company is also a developer and supplier of laboratory-to-enterprise scale software systems for managing and storing scientific information collected from a wide variety of testing methods.

The Company’s products are used by pharmaceutical, life science, biochemical, industrial, academic and government customers working in research and development, quality assurance and other laboratory applications. The Company’s LC instruments are a technology utilized in this broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials as well as to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as “proteomics”), food safety analyses and environmental testing. The Company’s thermal analysis and rheometry instruments are used in predicting the suitability of fine chemicals and polymers for uses in various industrial, consumer goods and health care products.

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

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

Business Segments

The Company’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the Chief Executive Officer. As a result of this evaluation, the Company determined that it has two operating segments: Waters Division and TA Division. As indicated above, the Company operates in the analytical instruments industry, manufacturing, distributing and servicing products in three complementary technologies: LC instruments, columns and other consumables, MS, and thermal analysis and rheometry instruments. The Company’s two operating segments, Waters Division and TA, have similar economic characteristics, product processes, products and services, types and classes of customers, methods of distribution, and regulatory environments. Because of these similarities, the two segments have been aggregated into one reporting segment for financial statement purposes.

Information concerning revenues and long-lived assets attributable to each of the Company’s geographic areas is set forth in Note 20 of Notes to the Consolidated Financial Statements, which is incorporated herein by reference.

WATERS DIVISION

High Performance and Ultra Performance Liquid Chromatography

Developed in the 1950's, HPLC is the standard technique used to identify and analyze the constituent components of a variety of chemicals and other materials. The Company believes that HPLC's performance capabilities enable it to separate and identify approximately 80% of all known chemicals and materials. As a result, HPLC is used to analyze substances in a wide variety of industries for research and development purposes, quality control and process engineering applications.

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

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

In March 2004, Waters introduced a novel technology that the Company described as Ultra-Performance Liquid Chromatography that utilizes a packing material with small, uniform diameter particles and a specialized instrument, the ACQUITY UPLC™, to accommodate the increased pressure and narrow chromatographic bands that are generated by these small particles. By using the ACQUITY UPLC, researchers and analysts are able to achieve more comprehensive chemical separations and faster analysis times in comparison with many analyses performed by HPLC. In addition, in using ACQUITY UPLC, researchers have the potential to extend the range of application beyond that of HPLC, enabling the uncovering of new levels of scientific information. Though it offers significant performance advantages, ACQUITY UPLC is compatible with the Company's software products and the general operating protocols of HPLC. For these reasons, the Company's customers and field sales and support organizations are well positioned to utilize this new technology and instrument. The Company began shipping the ACQUITY UPLC in the third quarter of 2004. During 2005, the Company experienced growth in the instrument systems product line primarily from the sales of the ACQUITY UPLC.

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

Waters HPLC columns can be used on Waters branded as well as competitors' LC systems. The Company believes that it is one of the few suppliers in the world that processes silica, packs columns and distributes its own products. In doing so, the Company believes it can better ensure product consistency, a key attribute for its customers in quality control laboratories, and react quickly to new customer requirements. At this time, the Company believes that its ACQUITY UPLC lines of columns are used nearly exclusively on its ACQUITY UPLC instrument and furthermore, that its ACQUITY UPLC instrument will primarily use ACQUITY UPLC columns.

In 2005, the Company experienced growth in its LC chromatography column and sample preparation businesses, especially in the XBridge™, SunFire™ and ACQUITY UPLC columns as well as in Oasis®

sample preparation cartridges. During 2004, the Company experienced growth in these businesses mainly due to Xterra® and Atlantis® columns, which were newly introduced in 2003.

Based upon reports from independent marketing research firms and publicly disclosed sales figures from competitors, the Company believes that it is the world's largest manufacturer and distributor of LC instruments, chromatography columns and other consumables and related services. The Company also believes that it has the leading LC market share in the United States, Europe and non-Japan/ Asia and believes it has a leading market share position in Japan.

Waters manufactures LC instruments that are offered in configurations that allow for varying degrees of automation, from component configured systems for academic research applications to fully automated Alliance® 2795 systems for high speed screening, and with a variety of detection technologies, from ultra-violet ("UV") absorbance to MS, optimized for certain analyses. The Company also manufactures tailored LC systems for the analysis of biologics as well as an LC detector utilizing evaporative light scattering technology to expand the usage of LC to compounds that are not amenable to UV absorbance detection.

The servicing and support of LC and MS instruments and accessories is an important source of revenue for the Waters Division. These revenues are derived primarily through the sale of support plans, demand service, customer training and performance validation services. Support plans most typically involve scheduled instrument maintenance, a commitment to supply software and firmware upgrades and an agreement to promptly repair a non-functioning instrument in return for a fee described in a multi-year contract that is priced according to the configuration of the instrument.

In 2004, the Company introduced a new product, the Electronic Laboratory Notebook, ("eLab Notebook™"), designed to replace and augment the paper-based safekeeping and archiving of laboratory procedures and results. In combination with the Company's Scientific Data Management System ("SDMS") product, eLab Notebook functions as a portal to laboratory scale information storage and retrieval systems as well as a flexible and personally manageable notation and display device. The pricing of eLab Notebook is based upon the number of users or seats that the customer decides to purchase. The Company began shipping eLab Notebook in the fourth quarter of 2004. The Company's existing server based software products, Millenium® and Empower™, are now augmented by the addition of the eLab Notebook's internet or "web" based software that enables the reporting of scientific data sourced from a broader array of instruments.

Mass Spectrometry

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

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

Currently, the Company offers and provides service, support and training for a wide range of MS instruments utilizing various combinations of quadrupole, ToF and magnetic sector designs. These instruments are used in drug discovery and development as well as for environmental testing. The majority of mass spectrometers sold by the Company are designed to utilize an LC system as the sample introduction device. These products supply a diverse market with a strong emphasis on the life science, pharmaceutical, biomedical, clinical and environmental market segments worldwide. Service sales, included in Waters Division total service sales, are primarily related to the sale of parts and labor associated with instrument repair and routine maintenance.

The mass spectrometer is an increasingly important detection device for LC. The Company's smaller sized mass spectrometers (such as the single quadrupole ZQ™ and Waters EMD) are often referred to as LC "detectors" and are either sold as part of an LC system or as an LC upgrade. Tandem quadrupole systems, such as the Waters Quattro micro™ and Quattro Premier™ XE instruments, are used primarily for experiments performed for late stage drug development, including clinical trial testing, and Q-ToF Instruments such as the Company's Q-ToF micro™ and Q-ToF Premier™ instruments, are often used to analyze the role of proteins in disease processes, an application sometimes referred to as "proteomics". In 2005, the Company introduced a new enhanced tandem quadrupole instrument, the Quattro Premier XE. The introduction of the Quattro Premier XE helped to grow the overall MS business in 2005. The LCT Premier™ is an LC, electrospray-ToF instrument designed to deliver a higher level of mass accuracy and the ability for more precise quantitative analysis. In 2004, the Company introduced a new Q-ToF configuration mass spectrometry system, the Q-ToF Premier to replace its Q-ToF Ultima line of systems and offer a higher level of instrument performance to its customers. The Q-ToF Premier is a tandem mass spectrometry system developed to provide increased levels of sensitivity and specificity to customers involved in challenging analyses such as those often encountered in proteomics and metabolite profiling experiments. The Company began shipping the Q-ToF Premier in the fourth quarter of 2004. The Q-ToF Premier is compatible and often purchased with a specialized ACQUITY UPLC as an inlet, a device to efficiently introduce a separated sample into the mass spectrometer.

LC-MS

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

TA DIVISION

Thermal Analysis

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.

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

Thermal analysis and rheometry instruments are heavily used in material testing laboratories and in many cases provide information useful in predicting the suitability of polymers and viscous liquids for various industrial, consumer goods and health care products. As with systems offered through the Waters Division, a range of instrumental configurations are available with increasing levels of sample handling and information processing automation. In addition, systems and accompanying software packages can be tailored for specific applications. For example, the Q-Series family of differential scanning calorimeters includes a range of instruments from basic dedicated analyzers to more expensive systems that can accommodate robotic sample

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handlers and a variety of sample cells and temperature control features for analyzing a broad range of materials. In 2005, TA introduced a new thermogravimetric analyzer (“TGA”), the Q5000IR TGA and a new AR-G2 rheometer. The introduction of these new products significantly helped grow the TA business in 2005. In the first quarter of 2003, TA expanded its rheometry product line through the acquisition of Rheometrics Scientific, Inc. (“Rheometrics”). During 2003, the Rheometrics product line was successfully integrated within the TA Instruments Division.

The Company sells, supports and services these product offerings through TA, headquartered in New Castle, Delaware. The TA division operates independently from the Waters Division though several of its overseas offices are situated in Waters facilities. TA has dedicated field sales and service operations. Service sales primarily derived from the sale of replacement parts and from billed labor fees associated with the repair, maintenance and upgrade of installed systems.

Customers

The Company 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. The Company’s technical support staff works closely with its customers in developing and implementing applications that meet their full range of analytical requirements.

The Company does not rely on any single customer or one group of customers for a material portion of its sales. During fiscal years 2005 and 2004, no single customer accounted for more than 3% of the Company’s net sales.

Sales and Service

The Company has one of the largest sales and service organizations in the industry focused exclusively on its LC, MS and thermal analysis installed base. Across these product technologies, using respective specialized sales and service forces, the Company serves its customer base with approximately 2,400 field representatives in 87 sales offices throughout the world as of December 31, 2005 compared to approximately 2,100 field representatives in 89 sales offices as of December 31, 2004. The Company’s 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 applications and procedures. The Company provides customers with comprehensive product literature and also makes consumable products available through a dedicated catalog.

Manufacturing

The Company provides high quality LC products by controlling each stage of production of its instruments, columns and chemical reagents. The Company currently assembles a substantial portion of its LC instruments at its facility in Milford, Massachusetts, where it performs machining, assembly and testing. The Milford facility employs manufacturing techniques that are expected to 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, monitors and circuit boards to outside vendors that can meet the Company’s quality requirements. In 2006, the Company will begin outsourcing some of the manufacturing of the Alliance HPLC instrument system to a company in Singapore. The Company expects to continue to increase the number of units outsourced as quality requirements are achieved.

The Company manufactures its LC columns at its facilities in Taunton, Massachusetts and Wexford, Ireland, where it processes, sizes and treats silica and polymeric media that are packed into columns, solid phase extraction cartridges and bulk shipping containers. The Wexford facility also manufactures and distributes certain data, instruments and software components for the Company’s LC, MS and thermal

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analysis product lines. These facilities meet the same ISO and FDA standards met by the Milford, Massachusetts facility and are approved by the FDA.

The Company manufactures most of its MS products at its facilities in Manchester, England, Cheshire, England and Wexford, Ireland. Certain components or modules of the Company's MS instruments are manufactured by long-standing outside contractors. Each stage of this supply chain is closely monitored by the Company to maintain its high quality and performance standards. The instruments, components or modules are then returned to the Company's facilities where its engineers perform final assembly, calibrations to customer specifications and quality control procedures. The Company's MS facilities meet similar ISO and FDA standards met by the Milford, Massachusetts facility and are approved by the FDA.

Thermal analysis products are manufactured at the Company's New Castle, Delaware facility and rheometry products are manufactured at the Company's New Castle, Delaware and Crawley, England facilities. Similar to MS, certain elements of TA's products are manufactured by outside contractors and are then returned to the Company's facilities for final assembly, calibration and quality control. The Company's thermal analysis facilities meet similar ISO standards met by the Milford, Massachusetts facility.

Research and Development

The Company maintains an active research and development program focused on the development and commercialization of products that both complement and update the existing product offering. The Company's research and development expenditures for 2005, 2004 and 2003 were \$66.9 million, \$65.2 million and \$59.2 million, respectively. Nearly all of the current LC products of the Company have been developed at the Company's main research and development center located in Milford, Massachusetts, with input and feedback from the Company's extensive field organizations. The majority of the MS products have been developed at facilities in England and nearly all of the current thermal analysis products have been developed at the Company's research and development center in New Castle, Delaware. At December 31, 2005, there were approximately 555 employees involved in the Company's research and development efforts, compared to 525 employees in 2004. The Company has increased research and development expenses relating to acquisitions and the Company's continued commitment to invest significantly in new product development and existing product enhancements. Despite the Company's active research and development programs, there can be no assurances that the Company's product development and commercialization efforts will be successful or that the products developed by the Company will be accepted by the marketplace.

Employees

The Company employed approximately 4,500 employees, with 47% located in the United States, and approximately 4,300 employees, with 48% located in the United States at December 31, 2005 and 2004, respectively. The increase of 5% over 2004 is primarily due to increases in service personnel in support of the Company's growing installed base of instrument systems. The Company considers its employee relations, in general, to be good. The Company's employees are not unionized or affiliated with any internal or external labor organizations. The Company believes that its future success depends, in a large part, upon its continued ability to attract and retain highly skilled employees. In February 2006, the Company implemented a cost reduction and expense reallocation plan, primarily in the U.S. and Europe, resulting in the employment of approximately 70 employees being terminated with effective dates through the third quarter of 2006. During 2004, the Company had similarly announced and commenced a small restructuring effort to realign its personnel between various support functions and field sales and service organizations around the world. The employment of approximately 70 people was terminated as a result of this restructuring, all of whom had left the Company as of December 31, 2004.

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 for each of its three technologies. The Company competes in its markets primarily on the basis of instrument performance,

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reliability and service and, to a lesser extent, price. Some competitors have instrument businesses that are more diversified than the Company's business, but are typically less focused on the Company's chosen markets. Some competitors have greater financial and other resources than the Company.

In the markets served by LC, MS and LC-MS, the Company's principal competitors include: Applied BioSystems, Inc., Agilent Technologies, Inc., Thermo Electron Corporation, Varian, Inc., Shimadzu Corporation and Bruker BioSciences Corporation. In the markets served by TA, the Company's principal competitors include: PerkinElmer Inc., Mettler-Toledo International Inc., Shimadzu Corporation, Thermo Electron Corporation, Malvern Instruments Ltd. and Anton-Paar. The Company is not currently aware of a competitor that it believes offers an instrument system comparable to its ACQUITY UPLC.

The market for consumable HPLC products, including separation columns, is also highly competitive but is more fragmented than the analytical instruments market. The Company encounters competition in the consumable 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 process silica, packs columns, and distributes its own product. The Company competes in this market on the basis of reproducibility, reputation and performance, and, to a lesser extent, price. The Company's principal competitors for consumable products include Phenomenex, Supelco Inc., Agilent Technologies, Inc., Alltech International Holdings, Inc. and Merck and Co., Inc. The ACQUITY UPLC instrument is designed to offer a predictable level of performance when used with ACQUITY UPLC columns to effect the chemical separation. UPLC columns are both fluidically and electronically connected to the ACQUITY UPLC instrument to allow users to simultaneously employ and track the performance status of the UPLC column. The Company believes that the expansion of ACQUITY UPLC technology will enhance its chromatographic column business because of the high level of synergy between ACQUITY UPLC columns and the ACQUITY UPLC instrument.

Patents, Trademarks and Licenses

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

Environmental Matters

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. In July 2003, the Company entered into a settlement agreement (the "Environmental Settlement Agreement") with the Commonwealth of Massachusetts, acting by and through the Attorney General and the Department of Environmental Protection ("DEP"), with respect to alleged non-compliance with state environmental laws at its Taunton, Massachusetts facility. Pursuant to the terms of a final judgment entered in the Superior Court of the Commonwealth on July 10, 2003, the Company paid a civil penalty of \$5.9 million. In addition, the Company agreed to conduct a Supplemental Environmental Project in the amount of \$0.6 million, comprised of investments in capital infrastructure, to study the effects of bio-filtration on certain air emissions from the Taunton facility and for the purchase of equipment in connection therewith. Pursuant to the terms of the Environmental Settlement Agreement, the Company also agreed to undertake a variety of actions to ensure that air emissions from the facility do not exceed certain limits and that the facility is brought into full compliance with all applicable environmental regulations. As of December 31, 2005, the

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Company had fulfilled its obligations with respect to the Supplemental Environment Project. 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.

Available Information

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

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

Forward-Looking Statements

Certain of the statements in this Form 10-K and the documents incorporated in this form are forward-looking statements, including statements regarding, among other items, (i) the impact of the Company’s new products, (ii) the Company’s growth strategies, including its intention to make acquisitions and introduce new products, (iii) anticipated trends in the Company’s business and (iv) the Company’s ability to continue to control costs and maintain quality. You can identify these forward-looking statements by the use of the words “believes”, “anticipates”, “plans”, “expects”, “may”, “will”, “would”, “intends”, “estimates” and similar expressions, whether in the negative or affirmative. These statements are subject to various risks and uncertainties, many of which are outside the control of the Company, including and without limitation, fluctuations in capital expenditures by our customers, in particular large pharmaceutical companies, regulatory and/or administrative obstacles to the timely completion of purchase order documentation, introduction of competing products, such as improved research-grade mass spectrometers, higher speed and/or more sensitive liquid chromatographs, by other companies, pressures on prices from competitors and/or customers, regulatory obstacles to new product introductions, lack of acceptance of new products, other changes in the demands of the Company’s healthcare and pharmaceutical company customers, changes in distribution of the Company’s products, changes in the healthcare market and the pharmaceutical industry, loss of market share through competition, potential product liability or other claims against the Company as a result of the use of its products, risk associated with lawsuits and other legal actions particularly involving claims for infringement of patents and other intellectual property rights, the short-term impact on 2006 operating results from cost savings initiatives the Company has implemented in February 2006, the effect in 2006 of implementing the new Statement of Financial Accounting Standard 123(R), Share-Based Payments adversely impacting the Company’s fiscal year 2006 operating results and foreign exchange rate fluctuations potentially adversely affecting translation of the Company’s future non-U.S. operating results as well as additional risk factors set forth below. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements, whether because of these factors or for other reasons. The Company does not assume any obligation to update any forward-looking statements.

Item 1A: Risk Factors

Competition and the Analytical Instrument Market:

The analytical instrument market and, in particular, the portion related to the Company’s HPLC, UPLC, MS, LC-MS, thermal analysis and rheometry product lines, is highly competitive, and the Company encounters competition from several international instrument manufacturers and other companies in both domestic and foreign markets. Some competitors have instrument businesses that are more diversified than the Company’s

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business, but are typically less focused on the Company's chosen markets. There can be no assurances that the Company's competitors will not introduce more effective and less costly products than those of the Company, or that the Company will be able to increase its sales and profitability from new product introductions. There can be no assurances that the Company's sales and marketing forces will compete successfully against its competitors in the future.

Additionally, the analytical instrument market may, from time to time, experience low sales growth. Approximately 51% and 53% of the Company's net sales in 2005 and 2004, respectively, were to the worldwide pharmaceutical and biotechnology industries, which may be periodically subject to unfavorable market conditions and consolidations. Unfavorable industry conditions could have a material adverse effect on the Company's results of operations.

Risk of Disruption:

The Company manufactures LC instruments at its facility in Milford, Massachusetts, separation columns at its facilities in Taunton, Massachusetts and Wexford, Ireland, MS products at its facilities in Manchester, England, Cheshire, England and Wexford, Ireland, thermal analysis products at its facility in New Castle, Delaware and rheometry products at its facilities in New Castle, Delaware and Crawley, England. Any prolonged disruption to the operations at any of these facilities, whether due to labor difficulties, destruction of or damage to either facility or other reasons, could have a material adverse effect on the Company's results of operations and financial condition.

Foreign Operations and Exchange Rates:

Approximately 65% of the Company's 2005 net sales were outside of the United States and were primarily denominated in foreign currencies. As a result, a significant portion of the Company's sales and operations are subject to certain risks, including adverse developments in the foreign political and economic environment, tariffs and other trade barriers, difficulties in staffing and managing foreign operations and potentially adverse tax consequences.

Additionally, the U.S. dollar value of the Company's net sales varies with currency exchange rate fluctuations. Significant increases in the value of the U.S. dollar relative to certain foreign currencies could have a material adverse effect on the Company's results of operations.

Reliance on Key Management:

The operation of the Company requires managerial and operational expertise. None of the key management employees has an employment contract with the Company, and there can be no assurance that such individuals will remain with the Company. If, for any reason, such key personnel do not continue to be active in management, the Company's operations could be adversely affected.

Protection of Intellectual Property:

The Company vigorously protects its intellectual property rights and seeks patent coverage on all developments that it regards as material and patentable. However, there can be no assurances that any patents held by the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. Conversely, there could be successful claims against the Company where its intellectual property does not cover competitor products or is invalidated. The Company's patents, including those licensed from others, expire on various dates. If the Company is unable to protect its intellectual property rights, it could have an adverse and material effect on the Company's results of operations and financial conditions.

Reliance on Customer Demand:

The demand for the Company's products is dependent upon the size of the markets for its LC, MS, thermal analysis and rheometry products, the level of capital expenditures of the Company's customers, the rate of economic growth in the Company's major markets and competitive considerations. There can be no assurances that the Company's results of operations will not be adversely impacted by a change in any of the factors listed above.

Reliance on Suppliers:

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

Reliance on Outside Manufacturers:

Certain components or modules of the Company's MS instruments are manufactured by long-standing outside contractors. Additionally, in 2006, the Company will begin outsourcing some of the manufacturing of the Alliance HPLC instrument system to an outside manufacturer. Disruptions of service by these outside contractors could have an adverse effect on the supply chain and the financial results of the Company. The Company believes that it could obtain alternative sources for these components or modules, but a prolonged inability to obtain these components or modules could have an adverse effect on the Company's financial condition or results of operations.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

Waters operates 18 United States facilities and 75 international facilities, including field offices. The Company believes its facilities are suitable and adequate for its current production level and for reasonable growth over the next several years. The Company's primary facilities are summarized in the table below.

Primary Facility Locations

<u>Location</u>	<u>Function (1)</u>	<u>Owned/Leased</u>
Franklin, MA	D	Leased
Milford, MA	M, R, S, A	Owned
Taunton, MA	M	Owned
Etten-Leur, Netherlands	S, D, A	Leased
St. Quentin, France	S, A	Leased
Singapore	S, A	Leased
Tokyo, Japan	S, A	Leased
Wexford, Ireland	M	Owned/Leased
New Castle, DE	M, R, S, D, A	Leased
Crawley, England	M, R, S, D, A	Leased
Cheshire, England	M, R, D, A	Leased
Manchester, England	M, R, S, A	Leased
Romania	R, A	Leased

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

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The Company operates and maintains 12 field offices in the United States and 64 field offices abroad in addition to sales offices in the primary facilities listed above. The Company's field office locations are listed below.

Field Office Locations (2)

United States	International		
Dublin, CA	Australia	India	Switzerland
Irvine, CA	Austria	Ireland	Taiwan
Schaumburg, IL	Belgium	Italy	United Kingdom
Wood Dale, IL	Brazil	Japan	
Beverly, MA	Canada	Korea	
Columbia, MD	Czech Republic	Mexico	
Ann Arbor, MI	Denmark	Netherlands	
Cary, NC	Finland	People's Republic of China	
Parsippany, NJ	France	Poland	
Huntingdon, PA	Germany	Puerto Rico	
Bellaire, TX	Hong Kong	Spain	
Spring, TX	Hungary	Sweden	

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

Item 3: Legal Proceedings

Hewlett-Packard Company:

The Company filed suit in the United States against Hewlett-Packard Company and Hewlett-Packard GmbH (collectively, "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"). The action in the United States was dismissed for lack of controversy. Actions seeking revocation or nullification of foreign HP patents were filed by the Company in Germany, France and England. A German patent tribunal found the HP German patent to be valid. In Germany, France and England, HP and its successor, Agilent Technologies Deutschland GmbH ("Agilent"), have brought an action alleging that certain features of the Alliance pump may infringe the HP patents. In England, the Court of Appeal found the HP patent valid and infringed. The Company's petitions for leave to appeal to the House of Lords were denied. A trial on damages was scheduled for November 2004. In March 2004, Agilent Technologies GmbH brought a new action against the Company alleging that certain features of the Alliance pump continue to infringe the HP patents. At a hearing held in the UK in June, 2004, the UK court postponed the previously scheduled November 2004 damages trial until March 2005. Instead, the court scheduled the trial in the new action for November 2004. In December 2004, following a trial in the new action, the UK court ruled that the Company did not infringe the HP patents. Agilent filed an appeal in that action, which was heard in July 2005, and the UK Appellate Court upheld the lower court's ruling of non-infringement. The damages trial scheduled for March 2005 was postponed pending this appeal and rescheduled for December, 2005. In December, 2005, a trial on damages commenced in the first action and continued for six days prior to a holiday recess. In February, 2006, the Company, HP and Agilent entered into a settlement agreement (the "Agilent Settlement Agreement") with respect to the first action and a Consent Order dismissing the case was entered. The Agilent Settlement Agreement provides for the release of the Company and its UK affiliate from each and every claim under Agilent's European patent (UK) number 309,596 arising out of the prior sale by either of them of Alliance Separations Modules incorporating the patented technology. In consideration of entering into the Agilent Settlement Agreement and the Consent Order, the Company made a payment to Agilent of 3.5 million British Pounds, in full and final settlement of Agilent's claim for damages and in relation to all claims for costs and interest in the case. In France, the Paris District Court has found the HP patent valid and infringed by the Alliance pump. The Company appealed the French decision and in April, 2004, the French

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appeals court affirmed the Paris District Court's finding of infringement. The Company has filed a further appeal in the case. In the German case, a German court has found the patent infringed. The Company appealed the German decision, and in December 2004, the German appeals court reversed the trial court and issued a finding of non-infringement in favor of the Company. Agilent is seeking an appeal in that action and in July 2005 brought a new action against the Company alleging that certain features of the Alliance pump continue to infringe the HP patents. This case is currently pending. The Company recorded provisions in the quarters ended June 30, 2002, April 3, 2004, and December 31, 2005 for estimated damages, legal fees, and court costs incurred with respect to this ongoing litigation. The provision represents management's best estimate of the probable and reasonably estimable loss related to the litigation.

Other:

Cohesive Technologies, Inc. ("Cohesive") has brought three suits against the Company in the U.S. District Court of Massachusetts. Cohesive alleges that several products of the Company, which are part of a much larger product line, are an infringement of two Cohesive U.S. Patents. The Company has denied infringement of such patents and has asserted several defenses. Two of the products alleged to be an infringement are now obsolete and are no longer sold in the United States. During the fourth quarter of 2001, a jury returned a verdict in one of the suits finding the Company liable for infringement of one of the two patents. The Company intends to continue to vigorously defend its position. Judgment has not been entered on the jury's verdict and further proceedings may preclude such entry. The Company believes it has meritorious positions and should prevail either through judgment or on appeal, although the outcome is not certain. The Company believes that any outcome of the proceedings will not be material to the Company.

Viscotek Corporation ("Viscotek") filed a civil action against the Company in the Federal District Court for the Southern District of Texas, Houston Division, alleging that one option offered by the Company with a high temperature gel permeation chromatography instrument is an infringement of two of its patents. These patents are owned by E.I. DuPont de Nemours and Company ("DuPont") and claimed to be exclusively licensed to Viscotek. DuPont is not a party to the suit. On January 16, 2004, a jury returned a verdict finding that the Company had not infringed Viscotek's patents. Judgment has been entered on the jury's verdict in favor of the Company. Viscotek appealed the judgment. In November, 2005, the United States Court of Appeals for the Federal Circuit affirmed the judgment of the trial court and the finding of non-infringement.

Item 4: *Submission of Matters to a Vote of Security Holders*

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Douglas A. Berthiaume, 57, has served as Chairman of the Board of Directors of the Company since February 1996 and has served as Chief Executive Officer and a Director of the Company since August 1994. Mr. Berthiaume also served as President of the Company from August 1994 to January 2002. In March 2003, Mr. Berthiaume once again became President of the Company. From 1990 to 1994, Mr. Berthiaume served as President of the Waters Chromatography Division of Millipore. Mr. Berthiaume is the Chairman of the Children's Hospital Trust Board, and a Director of the Children's Hospital Medical Center, Genzyme Corporation, and University of Massachusetts Amherst Foundation.

Arthur G. Caputo, 54, became an Executive Vice President in March 2003 and has served as President of the Waters Division since January 2002. Previously, he was the Senior Vice President, Worldwide Sales and Marketing of the Company since August 1994. He joined Millipore in October 1977 and held a number of positions in sales. Previous roles include Senior Vice President and General Manager of Millipore's North American Business Operations responsible for establishing the Millipore North American Sales Subsidiary and General Manager of Waters' North American field sales, support and marketing functions.

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Elizabeth B. Rae, 48, became Vice President of Human Resources in October, 2005 and has served as Vice President of Worldwide Compensation and Benefits since January 2002. She joined Waters Corporation in January 1996 as Director of Worldwide Compensation. Prior to joining Waters she has held senior human resources positions in retail, healthcare and financial services companies.

John Ornell, 48, became Vice President, Finance and Administration and Chief Financial Officer in June 2001. He joined Millipore in 1990 and previously served as Vice President, Operations. During his years at Waters, he has also been Vice President of Manufacturing and Engineering, had responsibility for Operations Finance and Distribution and had a senior role in the successful implementation of the Company's worldwide business systems.

Mark T. Beaudouin, 51, became Vice President, General Counsel and Secretary of the Company in April, 2003. Prior to joining Waters, he served as Senior Vice President, General Counsel and Secretary of PAREXEL International Corporation, a bio/pharmaceutical services company from January 2000 to April 2003. Previously, from May 1985 to January 2000, Mr. Beaudouin served in several senior legal management positions including Vice President, General Counsel and Secretary of BC International, Inc., a development stage biotechnology company, First Senior Vice President, General Counsel and Secretary of J. Baker, Inc., a diversified retail company, and General Counsel and Secretary of GenRad, Inc., a high technology test equipment manufacturer.

PART II

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

Equity compensation plan information is incorporated by reference from Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management, of this document, and should be considered an integral part of this Item 5. The Company's Common Stock is registered under the Securities Exchange Act of 1934, as amended the ("Exchange Act"), and is listed on the New York Stock Exchange under the symbol WAT. As of February 28, 2006, the Company had approximately 273 common stockholders of record. The Company has not declared or paid any dividends on its Common Stock in its past three fiscal years and does not plan to pay dividends in the foreseeable future.

The Company has not made any sales of unregistered securities in the years ended December 31, 2005, 2004 or 2003.

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
April 3, 2004	\$ 41.50	\$ 33.10
July 3, 2004	48.34	39.16
October 2, 2004	49.80	37.75
December 31, 2004	48.10	38.66
April 2, 2005	51.57	35.51
July 2, 2005	40.85	33.99
October 1, 2005	46.43	37.42
December 31, 2005	43.79	35.11

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The following table provides information about purchases by the Company during the three months ended December 31, 2005 of equity securities registered by the Company pursuant to the Exchange Act (in thousands, except per share data):

<u>Period</u>	<u>(a) Total Number of Shares Purchased (1)</u>	<u>(b) Average Price Paid per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Programs (2)</u>	<u>(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs (3)</u>
October 2 to 29, 2005	400	\$ 35.62	400	\$ 485,753
October 30 to November 26, 2005	2,680	39.09	2,680	381,020
November 27 to December 31, 2005	<u>2,478</u>	<u>39.19</u>	<u>2,478</u>	<u>283,912</u>
Total	<u>5,558</u>	<u>38.88</u>	<u>5,558</u>	<u>283,912</u>

- (1) The Company purchased an aggregate of 5,558 shares of its common stock in open market transactions pursuant to a repurchase program (the "Program") that was announced on October 25, 2005.
- (2) The Company's Board of Directors approved the repurchase by the Company of up to \$500.0 million of its outstanding common stock pursuant to the Program. The expiration date of the Program is October 25, 2007.
- (3) The approximate dollar value of shares that may yet be purchased under the Program was \$283.9 million at December 31, 2005.

Item 6: *Selected Financial Data*

Reference is made to information contained in the section entitled "Selected Financial Data" on page 80 of this Form 10-K, included in Item 8, Financial Statements and Supplementary Data.

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

Beginning in 2005, the Waters Division has included single quadrupole instruments within its reported mass spectrometry ("MS") instrument system revenues. These had previously been categorized as high performance liquid chromatography ("HPLC") instrument systems. In addition, service sales for HPLC and ultra performance liquid chromatography ("UPLC" and together with HPLC, "LC") and MS have been consolidated into a single service sales classification. These changes were made to reflect current business reporting processes subsequent to the consolidation of the Waters Division's LC and MS organizations. All product line and service sales, as well as sales growth percentages reported for the periods herein for Waters Division, reflect the new classifications as described above.

Business and Financial Overview:

The Company's sales grew 5% in 2005 over 2004 and 15% in 2004 over 2003. Sales, in constant currency, grew 5% in 2005 and 11% in 2004. In 2005, the Company's business was impacted by a weakness in demand from the Company's large pharmaceutical customers while sales to all other customers increased 7% in 2005 over 2004. This increase in sales was driven primarily by the Company's food and environmental testing, government and university and fine chemical customers. Demand for the Company's products from U.S. pharmaceutical customers was constrained due to new drug pipeline issues and the effects of merger and litigation issues affecting those customers in 2005 which led to a reduction in capital spending in comparison to the 2004 levels. Despite this weakness in the U.S., sales to non-U.S. based pharmaceutical customers increased 8% in 2005. This sales growth was driven primarily by the Company's new products, the ACQUITY UPLC™, the Q-ToF Premier™ and Quattro Premier™ XE systems.

Geographically, sales growth in 2005, before the effects of currency translation, was strongest in Japan (10%) and Asia (12%), particularly India and China, while sales in the U.S. (2%) and Europe (4%) grew more modestly. In order to capitalize on the strong sales growth anticipated in Asia and Japan in 2006,

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the Company expects to accelerate its investment in these operations and fund this investment, in part, by managing expense growth in other geographies. These realignment efforts will result in one-time expenses in 2006.

From a product line perspective and excluding the impact of currency translation, Waters Division LC sales grew approximately 6% in 2005 and benefited from the shipment of ACQUITY UPLC systems, growth in service sales of 9% and growth in LC chemical product sales of 9%. In MS, sales grew approximately 2% in 2005, as full-year growth in the shipments of the new Q-ToF Premier and Quattro Premier systems was offset by softer sales of single quadrupole and magnetic sector devices. The Thermal Analysis Division ("TA") sales grew approximately 9% in 2005, benefiting from overall stronger industrial chemical customer demand, recent new product introductions and from the expansion of its business into Asian markets.

In February 2006, the Company began implementing a cost reduction plan, primarily affecting operations in the U.S. and Europe that resulted in the employment of approximately 70 employees being terminated with effective dates through the third quarter of 2006. In addition, the Company plans to close a sales and demonstration office in the Netherlands in the third quarter of 2006. The Company expects to incur a one-time estimated restructuring charge in 2006 in the range of \$5.0 million to \$7.0 million. The Company expects the entire restructuring plan to be completed by the third quarter of 2006. Cash expenditures associated with this restructuring are estimated to be similar to the timing of recording the expense. The Company is implementing this cost reduction plan primarily to realign its operating costs with business opportunities around the world.

Operating income was \$283.2 million and \$284.9 million in 2005 and 2004, respectively, a decrease of \$1.7 million. Operating income in 2005 was impacted by a litigation provision of \$3.1 million related to a patent litigation settlement with Hewlett-Packard Company in February 2006. In 2004, operating income included the benefit of a litigation judgment in the amount of \$17.1 million from Perkin-Elmer Corporation partially offset by the sum of litigation provisions of \$7.8 million and a technology license asset impairment of \$4.0 million. The remaining increase in operating income of \$6.7 million was primarily a result of sales growth.

Operating cash flow increased to \$298.1 million in 2005 compared to \$259.4 million in 2004. The increase of \$38.7 million in 2005 is primarily attributable to improvements in days-sales-outstanding ("DSO") and improving inventory turns. DSO improved to 70 days in 2005 from 76 days in 2004 while inventory turns improved to 3.6 turns in 2005 from 3.3 turns in 2004. Capital expenditures related to property, plant, equipment, software capitalization and other intangibles were \$51.0 million in 2005 compared to \$66.2 million in 2004. In 2004, capital expenditures included the purchase of a building adjacent to the Company's headquarters, in Milford, Massachusetts, costing \$18.1 million.

In 2005, the Board of Directors of the Company approved the repatriation of \$500.0 million as a qualified distribution in accordance with the American Jobs Creation Act of 2004 ("AJCA"). The AJCA created a temporary incentive for U.S. multi-national corporations to repatriate accumulated income abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The Company will use the repatriated cash to fund current and future operating expenses and investments in the U.S. In connection with this distribution, all repatriated in the second half of 2005, the Company recorded \$24.0 million of federal, state and foreign income taxes. Excluding the impact of this one-time income tax expense, the Company's effective rate was 17.7% compared to 21.6% in 2004 as a result of the relative increase in income in international jurisdictions with lower tax rates, primarily Ireland.

In October of 2005, the Company's Board of Directors authorized the Company to repurchase up to an additional \$500.0 million of its outstanding common shares over a two-year period. The Company has repurchased 5.6 million shares at a cost of \$216.1 million under this new program through December 31, 2005. During 2005, the Company repurchased a total of 15.4 million shares of its common stock at a cost of \$659.3 million. This total includes share repurchases associated with the October 2005 program as well as previously authorized share repurchase programs. The Company believes that the share repurchase programs are beneficial to shareholders by increasing earnings per share through reducing the number of outstanding shares. The Company also believes that it has the financial flexibility to fund these share repurchases given

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current cash and debt levels, and invest in research, technology acquisitions and business acquisitions to further grow the Company's sales and profits.

In October 2005, the Company fully exercised the \$100.0 million expansion feature in the credit agreement dated December 2004, increasing the amount from \$700.0 million to \$800.0 million. In November 2005, the Company entered into a new Credit Agreement that provides for a \$250.0 million term loan facility. As of December 31, 2005, the Company had \$500.0 million of long-term debt and \$310.0 million of short-term debt under these credit agreements for a total of \$810.0 million outstanding as compared to \$440.0 million outstanding at December 31, 2004, \$250.0 million of which was classified as long-term debt. The Company plans to use the proceeds of the term loan to finance the repurchase of common stock under its stock repurchase program previously approved by its Board of Directors and for general corporate purposes. The Company also believes that this additional borrowing capacity will provide the Company the flexibility to fund working capital needs and potential acquisitions.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Sales:

Net sales in 2005 were \$1,158.2 million, an increase of 5% compared to sales of \$1,104.5 million in 2004. Foreign currency translation had no effect overall on sales growth in 2005. In 2005, product sales increased \$27.9 million or 3% and service sales increased \$25.8 million or 9% over sales in 2004. The increase in product sales is primarily due to the continued strength of LC, MS and TA instrument sales growth, increases in sales of chromatography columns and consumables and, particularly, the full-year sales in 2005 of the ACQUITY UPLC system. The increase in service sales is primarily due to growth in the Company's instrument installed base and sales of service contracts. The Company expects sales to grow in 2006 from higher sales of new products and service sales growth in both of its operating divisions.

The following commentary discusses the Company's sales performance by product line in constant currencies.

Waters Division Net Sales:

With respect to the Waters Division's performance by product line, overall LC sales in 2005 grew approximately 6%. The growth in LC instrument sales in 2005 was 3%. This growth was due principally to the full-year impact of products introduced in 2004, such as the ACQUITY UPLC instrument, in combination with demand for existing LC instruments. In 2005, the sales of LC consumables (sample preparation devices and chromatography columns) grew 9% primarily as a result of continued strength in demand from the introduction of the new XBridge™, SunFire™ and ACQUITY UPLC chromatography columns and Oasis® sample preparation cartridges. Service sales in 2005 grew 9% over 2004 due to increased sales of service plans to the Company's growing installed base of customers. For the LC business, service sales were approximately 33% of total LC revenue in 2005 as compared to 32% in 2004. Service sales growth was geographically broad-based and was driven by increased demand, primarily from large multi-national customers, for service plans to maintain a higher percentage of their installed Waters instruments and their newly purchased Waters instruments. LC consumables accounted for approximately 18% of overall LC sales in 2005 and 2004.

MS sales grew approximately 2% in 2005. The increase in sales over 2004 is primarily the result of an increase in Q-ToF Premier and Quattro Premier XE system sales substantially offset by weak single quadrupole and magnetic sector instrument sales. The Company plans to introduce new MS instruments in 2006 that it believes should refresh a substantial portion of its quadrupole-based MS instrument sales.

Geographically, Waters LC sales grew 11% in Asia and 9% in Japan while the U.S. and European sales grew 3% and 5%, respectively. MS sales were strongest in Japan growing at 8% while MS sales in the U.S. declined 6%. The Company believes that the MS sales in the U.S. were significantly and negatively impacted by the weak demand from the Company's large pharmaceutical customers. Sales growth rates in Asia and Japan were driven by business associated with pharmaceutical industry demand in India and more broad-based growth in China. Increased regulations for food and drinking water testing also contributed to sales growth in Japan and in Asia.

TA Instruments Division Net Sales:

Sales for thermal analysis instruments, rheometry instruments and related service sales grew 9% in 2005. Strong demand for TA products from customers outside of the U.S. contributed to the division's overall sales growth. Sales growth for TA outside of the U.S. was 15% in 2005 compared to 2004. Strong demand for the division's products in Japan and in Asia overall, associated with expanded sales and marketing efforts, were especially important factors in effecting the division's positive sales growth performance. Sales in the U.S. grew 3%. In 2005 and 2004, service sales were approximately 27% and 26%, respectively, of overall revenue and grew approximately 16% in 2005, primarily as a result of providing service to a larger installed base of instruments.

Gross Profit:

Gross profit for 2005 was \$679.9 million compared to \$649.7 million for 2004, an increase of \$30.2 million or 5% and generally consistent with the increase in net sales. Gross profit as a percentage of sales decreased to 58.7% in 2005 from 58.8% in 2004. The slight decline in gross profit percentage is primarily attributable to a higher mix of more costly new products, in particular the ACQUITY UPLC instrument, as well as lower sales of higher margin MS instruments. These factors negatively affecting gross profit percentage were partially offset by an increased mix of higher margin chromatography consumables and service sales. The Company expects that gross margin percent will decline slightly in 2006 as a result of the continued higher sales of new products with higher manufacturing costs, transitional expenses associated with the movement of Alliance instrument system production to Singapore as well as due to the expensing of stock options under Statement of Financial Accounting Standard ("SFAS") No. 123(R) "Share-Based Payment".

Selling and Administrative Expenses:

Selling and administrative expenses for 2005 and 2004 were \$321.7 million and \$300.2 million, respectively. As a percentage of net sales, selling and administrative expenses increased to 27.8% for 2005 compared to 27.2% for 2004. The \$21.5 million or 7% increase in total selling and administrative expenses for 2005 is primarily attributable to the following: an increase of approximately \$4.1 million as a result of foreign currency effects that included a reduction of \$2.2 million in realized and unrealized foreign currency transaction gains; annual merit increases effective in April in both years and other headcount additions and related fringe benefits and indirect costs of approximately \$15.4 million; an increase in travel expenses of approximately \$6.4 million; and an increase in expenses associated with a new building in Milford, Massachusetts acquired in 2004. The impact of these increases was primarily offset by lower management incentive compensation expense derived from 2005 financial results. The Company expects that selling and administrative expenses will grow in 2006 at a percentage rate that is slightly lower than the expected sales growth rate. This slower growth in expenses will be effected through cost reduction efforts that will result in a one-time charge in 2006. This outlook does not include the effect of expensing of stock options under SFAS No. 123(R).

Research and Development Expenses:

Research and development expenses were \$66.9 million for 2005 and \$65.2 million for 2004, an increase of \$1.7 million or 3%. The increase is primarily attributable to an increase in headcount as the Company continues to invest in the development of new and improved LC, MS, thermal analysis and rheometry products. The Company expects research and development expenses to grow in 2006 at a similar rate to sales growth. This anticipated growth rate does not include the effect of expensing of stock options under SFAS No. 123(R).

Litigation Settlement and Provisions:

Net litigation settlements and provisions for 2005 were a \$3.1 million charge compared to a \$9.3 million net benefit for 2004. In 2005, the Company recorded a provision of \$3.1 million relating to patent litigation with Hewlett-Packard Company ("Hewlett-Packard"). This patent litigation was settled in February 2006. The Company recorded the benefit of a litigation judgment in the second quarter of 2004 in the amount of \$17.1 million and a provision expense of \$7.8 million in the first quarter of 2004. The benefit in 2004 is related to the conclusion of the Company's litigation with Perkin-Elmer. The provision in 2004 was related to the on-

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going patent infringement suit with Hewlett-Packard. In 2005, the Company made payments for legal fees regarding the Hewlett-Packard litigation in the amount of approximately \$2.3 million.

Impairment of Long-Lived Asset:

In 2004, the Company recorded a \$4.0 million charge for an other-than-temporary impairment of its technology license with Sandia National Laboratories, as a significant portion of the technology collaboration program was suspended. There was no such charge in 2005. The remaining value of the license was approximately \$0.8 million and \$1.0 million as of December 31, 2005 and 2004, respectively.

Other Income (Expense), Net:

In the fourth quarter of 2005, the Company sold all of its equity investment in Nuvello, Inc. and recorded a gain of \$1.7 million. In the fourth quarter of 2005, the Company also recorded a \$4.8 million charge for an other-than-temporary impairment for the full value of the Company's investment in Beyond Genomics, Inc. This charge was recorded based on the Company's assessment of Beyond Genomics, Inc.'s financial condition. In 2004, the Company recorded a \$1.0 million pre-tax charge for an other-than-temporary impairment to the Company's remaining investment carrying value of GeneProt™. This charge was recorded based on the Company's assessment of GeneProt's financial condition.

Interest Expense:

Interest expense was \$24.7 million and \$10.1 million for 2005 and 2004, respectively. The increase in 2005 interest expense is primarily attributable to a combination of additional borrowings in the U.S. to fund the stock repurchase programs and higher interest rates on the Company's outstanding debt.

Interest Income:

Interest income for 2005 and 2004 was \$19.3 million and \$11.9 million, respectively. The increase in interest income is primarily due to higher cash balances and higher interest rate yields.

Provision for Income Taxes:

In October 2004, the AJCA was signed into law. The AJCA creates a temporary incentive for U.S. multi-national corporations to repatriate accumulated income abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. It previously had been the Company's practice to permanently reinvest all foreign earnings into foreign operations. On July 12, 2005, the Board of Directors of the Company approved the repatriation of \$500.0 million as a qualified distribution in accordance with the AJCA. The Company will use the repatriated cash to fund current and future operating expenses within the parameters of Internal Revenue Service guidance. During the third quarter of 2005, the Company recorded a tax liability of \$24.0 million for the federal, state and foreign taxes related to the qualified and base period distribution in accordance with SFAS No. 109, "Accounting for Income Taxes".

The Company's effective tax rates for 2005 and 2004 were 26.4% and 21.6%, respectively. Included in the 2005 effective tax rate is the \$24.0 million of income tax expense related to the repatriation of funds from the Company's foreign subsidiaries under the AJCA. Excluding the income tax expense pertaining to the repatriation, the Company's effective tax rate was 17.7% for 2005. The effective tax rate of 21.6% in 2004 was impacted by the net tax effect of the Perkin-Elmer litigation judgment received and the litigation provisions for the on-going patent infringement suit with Hewlett-Packard. The effective tax rate excluding these items was 21.0% in 2004. The decrease in effective tax rates to 17.7% in 2005 from 21.0% in 2004, excluding the previously described items, is primarily attributable to the relative increase in income in international jurisdictions with lower effective tax rates, primarily Ireland.

Impact of New Accounting Pronouncements:

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R) which amends SFAS No. 123 "Accounting for Stock-Based Compensation". This standard requires that all share-based payments to employees, including grants of employee stock options, be recognized in the statement of

operations based on their fair values. This charge will be allocated to line items within the consolidated statements of operations based on underlying employee service. The Company will begin recognizing these charges in the three months ending April 1, 2006, under the modified prospective method. The final standard allows alternative methods for determining fair value. The Company will use the Black-Scholes model to determine the fair value of its stock-based compensation awards. The Company has made changes to its equity compensation structure and will begin granting a combination of restricted stock units and non-qualified stock options. The Company estimates that the adoption of SFAS No. 123(R) will result in a negative impact to earnings per diluted share, net of tax, of approximately \$0.21 to \$0.24 in 2006.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Sales:

Net sales for 2004 were \$1,104.5 million, an increase of 15% compared to \$958.2 million for 2003. Excluding currency effects, net sales grew 11% over 2003. Currency translation effect increased sales growth in 2004 by 4% primarily due to the strengthening of the Euro, British Pound, Japanese Yen and Canadian dollar against the U.S. dollar. In 2004, product sales increased \$83.7 million or 12% and service sales increased \$62.7 million or 27% over sales in 2003. The increase in product sales, aside from the effects of foreign currency translation, is primarily due to the continued strength of LC, MS and TA sales growth, the mid-year launch of the ACQUITY UPLC system and the impact of acquired businesses. The increase in service sales, aside from the effects of foreign currency translation, is primarily due to growth in the Company's instrument installed base and sales of service contracts, including the effect of the Company's recent acquisitions.

Waters Division Net Sales:

With respect to the Waters Division's performance by product line (excluding the effects of currency translation), LC sales (Liquid Chromatography — including HPLC and UPLC product lines) grew approximately 12%. The growth in LC instrument and data sales in 2004 was 13%. This growth was due principally to the introduction of new products, such as the ACQUITY UPLC instrument, the impact of businesses acquired and steady demand for existing instrument systems. In 2004, the sales of LC consumables (sample preparation devices) in the Company's chemistry operations grew 10% primarily as a result of continued strength in demand related to pharmaceutical production and the introduction of new chromatography columns, most notably the SunFire™ product line. Service sales grew 13% over 2003 due to increased sales of service plans to the Company's growing installed base of customers. Service sales were approximately 32% of total LC revenue in 2004. The growth of LC service sales was geographically broad-based and was driven by increased demand primarily from large multi-national customers for service plans to maintain a higher percentage of their installed base and newly purchased Waters instruments. LC consumables account for approximately 18% of overall LC sales.

MS sales grew approximately 4% in 2004 (excluding the effects of currency translation). The increase in sales over 2003 is primarily a result of strong growth of tandem quadrupole instruments throughout the year and the positive impact of new product shipments, especially the Q-ToF Premier, late in the year. The growth in 2004 is also a result of weak 2003 MS performance, during which MS sales declined over the prior year, due primarily to the effects of a patent litigation loss sustained in 2002. During 2004, the Company re-entered all instrument categories impacted by the patent litigation loss.

Geographically, Waters LC and MS sales in Asia had the highest growth in 2004. Growth in Asia was highlighted by business associated with growth of the pharmaceutical industry in India and more broad-based growth in China. More regulations for food and drinking water testing contributed to sales growth in Japan and in Southeast Asia. In Asia and in Japan, the Company's growth rates in sales (excluding the effects of currency translation) were 16% and 12%, respectively. Sales in the U.S. grew 13% while Europe experienced an 8% increase in sales due to slower sales volume in the first half of the year.

TA Instruments Division Net Sales:

Sales for thermal analysis instruments, rheometry instruments and related service sales grew 11% in 2004 (excluding the effects of currency translation). The growth of this business was influenced by strong sales

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growth of 16% outside of the U.S., primarily from Europe, Japan and Asia, as a result of expanded sales and marketing efforts in the regions. Sales in the U.S. grew 5%. In 2004 and 2003, service sales were approximately 26% of overall revenue and grew approximately 10% in 2004 primarily as a result of providing service to a larger installed base of instruments.

Gross Profit:

Gross profit for 2004 was \$649.7 million compared to \$560.4 million for 2003, an increase of \$89.3 million or 16% and is generally consistent with the increase in net sales. Gross profit as a percentage of sales increased to 58.8% in 2004 from 58.5% in 2003. The increase in gross profit percentage is a net result of favorable foreign currency translation along with the continuing success of the Company's manufacturing cost reduction programs, offset by costs associated with additional service resources added to the Waters Division in support of the service product line growth. Within MS, there was a decrease in gross profit as a percentage of net sales as a result of a product mix shift away from the higher margin Q-ToF product line.

Selling and Administrative Expenses:

Selling and administrative expenses for 2004 and 2003 were \$300.2 million and \$264.3 million, respectively. As a percentage of net sales, selling and administrative expenses declined slightly to 27.2% for 2004 compared to 27.6% for 2003. The \$35.9 million, or 14%, increase in total selling and administrative expenses for 2004 included an increase of approximately \$11.9 million as a result of currency translation; an incremental \$10.4 million attributed to acquisitions; an increase of \$18.6 million in personnel costs attributed to higher headcount, selling related expenses related to the higher sales volume, annual merit increases and increased employee incentive plans costs as a result of the Company's 2004 performance. An increase in costs related to Sarbanes — Oxley compliance of \$3.2 million was offset by a decrease in litigation costs of \$3.8 million. The increase in selling and administrative expenses was partially offset by \$6.6 million of realized and unrealized foreign currency transaction gains compared to the \$2.2 million of realized and unrealized foreign currency transaction gains in 2003.

Research and Development Expenses:

Research and development expenses were \$65.2 million for 2004 and \$59.2 million for 2003, an increase of \$6.0 million or 10%. The increase is primarily attributable to an increase in headcount due to acquisitions, the effects of foreign currency translation, and to the Company's continued commitment to invest significantly in the development of new and improved LC, MS, thermal analysis and rheometry products.

Purchased Intangibles Amortization:

Purchased intangibles amortization for 2004 was \$4.8 million compared to \$4.2 million for 2003, an increase of \$0.6 million or 14%. The increase primarily relates to the amortization of purchased intangibles resulting from acquisitions.

Litigation Settlement and Provisions:

Net litigation settlements and provisions for 2004 were a \$9.3 million net benefit compared to a litigation provision of \$1.5 million for 2003. The Company recorded the benefit of a litigation judgment in the second quarter of 2004 in the amount of \$17.1 million and a provision expense of \$7.8 million in the first quarter of 2004. The benefit in 2004 is related to the conclusion of the Company's litigation with Perkin-Elmer. The provision in 2004 is related to the on-going patent infringement suit with Hewlett-Packard. In 2004, the Company made payments for legal fees and potential award deposits regarding the Hewlett-Packard litigation in the amount of approximately \$4.1 million. The Company recorded a \$1.5 million expense in 2003 for an environmental matter concerning the Company's Taunton facility.

Loss on Sale of Business:

The Company recorded a \$5.0 million charge relating to the loss on the sale of the inorganic MS product line in 2003. There was no such charge in 2004.

Impairment of Long-Lived Asset:

In 2004, the Company recorded a \$4.0 million charge for an other-than-temporary impairment of its technology license with Sandia National Laboratories, as a significant portion of the technology collaboration program was suspended. The remaining value of the license is approximately \$1.0 million at December 31, 2004. There was no such charge in 2003.

*Restructuring and Other Unusual Charges, net:**2004 Restructuring:*

In January 2004, the Company initiated a restructuring effort to realign its personnel between various support functions and field sales and service organizations around the world. As a result, 70 employees were terminated, all of which had left the Company as of December 31, 2004. The provision of \$2.1 million represents costs incurred, including severance costs, for the 70 people and other directly related incremental costs of this realignment effort.

The following is a summary of the activity of the Company's 2004 restructuring liability (in thousands):

	<u>Balance December 31, 2003</u>	<u>Charges</u>	<u>Utilization</u>	<u>Reserve Reversals</u>	<u>Balance December 31, 2004</u>
Severance	\$ —	\$ 1,968	\$ (1,968)	\$ —	\$ —
Other	—	115	(115)	—	—
Total	<u>\$ —</u>	<u>\$ 2,083</u>	<u>\$ (2,083)</u>	<u>\$ —</u>	<u>\$ —</u>

2002 Restructuring:

In July 2002, the Company took action to restructure and combine its field sales, service and distribution of its Micromass and LC operations. The objective of this integration was to leverage the strengths of both divisions and align and reduce operating expenses. The integration efforts impacted the U.S., Canada, continental Europe and the United Kingdom. Approximately 55 employees were terminated, all of which had left the Company as of December 31, 2003. In addition, the Company originally committed to closing four sales and distribution facilities, two of which were closed by December 31, 2004.

The Company recorded \$2.6 million of charges for the year ended December 31, 2003 and \$7.4 million for the year ended December 31, 2002, for restructuring and other directly related incremental charges relating to its integration of the worldwide LC and MS sales, service and support organizations. The charge for the year ended December 31, 2003 includes severance costs for 13 people, distributor termination costs and other directly related incremental costs of this integration effort. The charge for the year ended December 31, 2002 includes severance costs for 42 people, contract cancellation fees, non-cancelable lease obligations and other directly related incremental costs.

During the year ended December 31, 2004, the Company reversed approximately \$2.2 million in restructuring reserves, primarily attributable to a change in plans with respect to two facilities previously selected for closure and distributor contract settlements being less than previously estimated. During the year ended December 31, 2003, the Company reversed approximately \$1.9 million in restructuring reserves, primarily attributable to facility closure and distributor termination costs being less than previously estimated and the retention of certain employees previously selected for termination.

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The following is a summary of the activity of the Company's LC and MS integration restructuring liability (in thousands):

	<u>Balance December 31, 2003</u>	<u>Charges</u>	<u>Utilization</u>	<u>Reserve Reversals</u>	<u>Balance December 31, 2004</u>
Severance	\$ 31	\$ 23	\$ (54)	\$ —	\$ —
Facilities	1,937	—	(338)	(1,599)	—
Distributor terminations	475	—	(75)	(400)	—
Other	163	5	(10)	(158)	—
Total	<u>\$ 2,606</u>	<u>\$ 28</u>	<u>\$ (477)</u>	<u>\$ (2,157)</u>	<u>\$ —</u>

The Company also recorded an unrelated restructuring provision of \$0.1 million at its TA subsidiary for severance and other related costs in the year ended December 31, 2003. There were no such charges for the year ended December 31, 2004.

Expensed In-Process Research and Development:

In 2003, in connection with the acquisition of Creon, the Company wrote off the fair value of purchased in-process research and development ("IPR&D") of various projects for the development of new products and technologies in the amount of \$6.0 million. The amount was determined by identifying research projects for which technological feasibility had not been established and which had no alternative future uses. As of the Creon acquisition date (the "Acquisition Date"), there were four projects that met the above criteria. The significant IPR&D projects identified consist of the eLab Notebook and the automatic LC-MS dereplication system. The IPR&D charges associated with these projects were \$4.5 million and \$0.8 million, respectively.

Management determined the valuation of the IPR&D using a number of factors, including engaging a third party valuation firm to provide an independent appraisal. The value was based primarily on the discounted cash flow method. This valuation included consideration of (i) the stage of completion of each of the projects, (ii) the technological feasibility of each of the projects, (iii) whether the projects had an alternative future use, and (iv) the estimated future residual cash flows that could be generated from the various projects and technologies over their respective projected economic lives.

The primary basis for determining the technological feasibility of these projects was whether the product met predetermined design specifications and complex functionality. As of the Acquisition Date, none of the IPR&D projects had reached predetermined design specifications and complex functionality. In assessing the technological feasibility of a project, consideration was also given to the level of complexity in future technological hurdles that each project had to overcome.

Future residual cash flows that could be generated from each of the projects were determined based upon management's estimate of future revenue and expected profitability of the various products and technologies involved. These projected cash flows were then discounted to their present values taking into account management's estimate of future expenses that would be necessary to bring the projects to completion. The discount rates include a rate of return, which accounts for the time value of money, as well as risk factors that reflect the economic risk that the cash flows projected may not be realized. The cash flows were discounted at discount rates ranging from 55% to 60% per annum, depending on the project's stage of completion and the type of complex functionality needed. This discounted cash flow methodology for the various projects included in the purchased IPR&D resulted in a total valuation of \$6.0 million. Although work on the projects related to the IPR&D continued after the acquisition, the amount of the purchase price allocated to IPR&D was written off because the projects underlying the IPR&D that was being developed were not considered technologically feasible as of the Acquisition Date.

Other Income (Expense), Net:

In 2004 and 2003, the Company recorded \$1.0 million and \$0.3 million, respectively, of pre-tax charges for other-than-temporary impairments to the carrying amounts of certain equity investments. The 2004 pre-tax

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charge of \$1.0 million is for the Company's remaining investment carrying value of GeneProt. This charge was recorded based on the Company's current assessment of GeneProt's financial condition.

Interest Expense:

Interest expense was \$10.1 million and \$2.4 million for 2004 and 2003, respectively. The increase in 2004 interest expense is primarily attributed to the additional borrowings in the U.S. to fund the stock repurchase programs.

Interest Income:

Interest income for 2004 and 2003 was \$11.9 million and \$7.1 million, respectively. The increase in interest income is primarily due to higher cash balances and higher interest rate yields.

Provision for Income Taxes:

The Company's effective tax rate was 21.6% in 2004 and 23.6% in 2003. The change in effective tax rates for the period was impacted by the net tax effect of the Perkin-Elmer litigation judgment received and litigation provisions and restructuring charges made during 2004, compared to the tax effect of certain litigation provisions, restructuring charges, expensed in-process research and development and loss on sale of a business incurred during 2003. The effective tax rates, excluding these items and corresponding tax effects, were 21.0% and 23.0% for the years ended December 31, 2004 and 2003, respectively. This decrease is primarily attributable to the increase in income in international jurisdictions with lower effective tax rates, primarily Ireland.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flows (in thousands):

	Year Ended December 31		
	2005	2004	2003
Net income	\$ 201,975	\$ 224,053	\$ 170,891
Depreciation and amortization	43,685	41,926	33,848
Tax benefit related to stock option plans	4,872	32,012	17,582
Deferred Taxes	10,235	1,468	(5,926)
Change in accounts receivable	(6,515)	(36,453)	10,938
Change in inventories	(6,973)	(11,575)	(4,302)
Change in accounts payable and other current liabilities	26,802	12,203	(30,005)
Change in accrued litigation	688	(16,095)	(60,120)
Change in deferred revenue and customer advances	7,551	1,526	3,277
Other changes	15,747	10,384	20,822
Net cash provided by operating activities	298,067	259,449	157,005
Net cash used in investing activities	(51,045)	(108,605)	(18,663)
Net cash provided by (used in) financing activities	(272,015)	21,507	(63,640)
Effect of exchange rate changes on cash and cash equivalents	(20,496)	9,945	18,767
(Decrease) increase in cash and cash equivalents	\$ (45,489)	\$ 182,296	\$ 93,469

Net cash provided by operating activities was \$298.1 million, \$259.4 million, and \$157.0 million in 2005, 2004, and 2003 respectively. The primary sources and uses of net cash provided from operating activities aside from net income, and reasons for their change, are as follows. Depreciation and amortization have increased over the three years presented as a result of higher capital spending on equipment and facilities, and the full-year impact of acquisitions, particularly in 2005 and 2004. Deferred income taxes decreased in 2005 primarily as a result of the utilization of a portion of the net operating loss carryforwards. The change in the tax benefit related to stock option plans is primarily attributable to the significant exercises of stock options in 2003 and

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2004 related to previously granted options about to expire which had low exercise prices. The change in accounts receivable is primarily related to the timing of the Company's sales within the quarter, the timing of cash receipts from customers and foreign currency translation. DSO at December 31, 2005, 2004 and 2003 were 70 days, 76 days and 71 days, respectively. The growth in inventory over the three years is primarily related to the Company's sales growth and the introduction of new products, most recently the ACQUITY UPLC system. Although inventory levels have grown they have not increased at the same rate of sales growth thus resulting in improved inventory turns of 3.6, 3.3 and 3.1 in 2005, 2004 and 2003, respectively.

The changes in accounts payable and other current liabilities are primarily related to the increase in income tax accruals resulting from the repatriation of funds in 2005 and timing of payments of income tax, compensation, and retirement accruals during the three years presented. The 2005 change in accrued litigation is attributed to payment of legal fees directly associated with existing litigation accruals and a provision of \$3.1 million relating to patent litigation with Hewlett-Packard Company, which was settled in February 2006. The 2004 change in accrued litigation of \$16.1 million is primarily due to the \$18.1 million payment to Applied Biosystems/MDS Sciex Instruments for the settlement of a patent litigation matter and a \$7.8 million provision offset by approximately \$4.1 million of payments in connection with the Hewlett-Packard patent litigation matter. The 2003 change in accrued litigation of \$60.1 million is primarily attributed to the Company paying \$59.6 million in connection with both the Applera patent litigation and the DEP settlement. Changes in deferred revenue and customer advances are primarily attributable to the Company's growth in service sales contracts and the timing of contract billings.

Net cash used in investing activities totaled \$51.0 million in 2005 compared to \$108.6 million in 2004 and \$18.7 million in 2003. Additions to fixed assets and intangible assets were \$51.0 million in 2005, \$66.2 million in 2004 and \$34.6 million in 2003. Included in 2004 was a 250,000 square foot building purchase adjacent to the Company's headquarters in Milford, Massachusetts for \$18.1 million as well as approximately \$3.2 million of costs in construction in-progress related to improvements made to the building. Aside from the purchase of this building, fixed asset and intangible asset additions were consistent with capital spending trends and expectations throughout the respective years to accommodate the Company's growth. Business acquisitions were \$42.4 million and \$35.2 million in 2004 and 2003, respectively. There were no business acquisitions in 2005. In addition, net cash used by investing activities in 2003 benefited from the release of the restricted cash related to a payment made to Applera for an unfavorable judgment in patent litigation.

Regarding cash provided by (used in) financing activities, the Company repurchased 15.4 million, 5.5 million and 11.9 million common stock shares at a cost of \$659.3 million, \$231.3 million and \$324.6 million, respectively, during 2005, 2004 and 2003, respectively, under previously announced programs. On October 24, 2005, the Company's Board of Directors authorized the Company to repurchase up to an additional \$500.0 million of its outstanding common shares over a two-year period. The Company repurchased 5.6 million shares at a cost of \$216.1 million under this new program through December 31, 2005 leaving \$283.9 million authorized for repurchases in the future. The Company believes that these share repurchase programs benefit shareholders by increasing earnings per share through reducing the outstanding shares while maintaining adequate financial flexibility given current cash and debt levels to fund future share repurchases and pursue acquisition opportunities. The Company received \$16.8 million, \$45.0 million and \$27.8 million of proceeds from the exercise of stock options and the purchase of shares pursuant to employee stock purchase plans in 2005, 2004 and 2003, respectively. Proceeds from stock options exercised in 2004 and 2003 were unusually high due to significant exercises of stock options related to previously granted options about to expire.

In November 2005, the Company entered into a new Credit Agreement (the "November 2005 Credit Agreement") that provides for a \$250.0 million term loan facility due in November 2010. The Company may, on a single occasion, request of the lender group that the facility be increased up to an additional \$100.0 million. The Company plans to use the proceeds of the term loan to finance the repurchase of common stock under its stock repurchase program previously approved by its Board of Directors and for general corporate purposes. The interest rates applicable to any U.S. borrowings under the November 2005 Credit Agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 1/2%) or, on any Euro borrowings, the applicable 1, 2, 3, 6, 9 or 12 month LIBOR

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rate, in each case plus an interest rate margin based upon the Company's leverage ratio, which can range between 37.5 basis points and 112.5 basis points. The November 2005 Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1, and a leverage ratio test of not more than 3.25:1, for any period of four consecutive fiscal quarters, respectively. In addition, the November 2005 Credit Agreement includes negative covenants that are customary for investment grade credit facilities and are similar in nature to ones contained in the Company's existing credit facility. The November 2005 Credit Agreement also contains certain customary representations and warranties, affirmative covenants and events of default, similar in nature to those in the Company's existing credit facility.

In December 2004, the Company had entered into a syndicated committed Credit Agreement (the "Credit Agreement") that provides for a \$250.0 million term loan facility due in December 2009 and, subsequent to the amendment discussed below, a \$450.0 million revolving facility, which includes both a letter of credit and a swingline subfacility. In October 2005, the Company fully exercised the \$100.0 million expansion feature in the credit agreement dated December 2004, increasing the amount from \$700.0 million to \$800.0 million. The Company used the proceeds of the additional borrowings to finance the repurchase of common stock and for general corporate purposes as provided for under the Credit Agreement. In October 2005, the Company amended the Credit Agreement (the "Amended Credit Agreement") to increase the leverage ratio test from not more than 3.0:1 for any period of four consecutive fiscal quarters, to 3.25:1 and to amend the definition of Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) to exclude stock-based compensation to the extent deducted from consolidated net income pursuant to Statement SFAS No. 123(R). All other terms and conditions under the original Credit Agreement with respect to interest rates, interest coverage ratio test, maturity dates and affirmative and negative covenants remained substantially the same in the Amended Credit Agreement.

As of December 31, 2005, the Company had \$250.0 million borrowed under the November 2005 Credit Agreement and \$560.0 million under the Amended Credit Agreement for a total of \$810.0 million borrowed under the two credit agreements and an amount available to borrow of \$238.4 million after outstanding letters of credit. In total, \$500.0 million of the total debt was classified as long-term debt and \$310.0 million classified as short-term debt at December 31, 2005 in the consolidated balance sheets. At December 31, 2004, the Company had aggregate borrowings under the Amended Credit Agreement of \$440.0 million of which \$250.0 million was classified as long-term debt. The remaining amounts of short-term debt of \$16.3 million and \$16.7 million at December 31, 2005 and 2004, respectively, represent various local lines of credit throughout the Company's worldwide subsidiaries.

The Company believes that the cash and cash equivalent balance of \$493.6 million at the end of 2005 and expected cash flow from operating activities together with borrowing capacity from committed credit facilities will be sufficient to fund working capital, capital spending requirements, authorized share repurchase amounts, potential acquisitions and any adverse final determination of ongoing litigation for at least the next twelve months. Management believes, as of the date of this report, that its financial position along with expected future cash flows from earnings based on historical trends and the ability to raise funds from a number of financing alternatives and external sources, will be sufficient to meet future operating and investing needs for the foreseeable future.

In July 2005, the Board of Directors of the Company approved the repatriation of \$500.0 million as a qualified distribution in accordance with the AJCA all of which was repatriated as a cash dividend by December 31, 2005 in accordance with the Board approved plan. The Company will use the repatriated cash to fund current and future operating expenses within the parameters of Internal Revenue Service guidance. During the third quarter of 2005, the Company recorded a tax liability of \$24.0 million for the federal, state and foreign taxes related to the qualified and base period distribution in accordance with SFAS No. 109. The Company made \$10.0 million in tax payments during 2005 and the Company expects to make tax payments of approximately \$9.0 million during the first quarter of 2006. The remaining \$5.0 million of this tax liability was offset by the tax benefit of a net operating loss carryforward ("NOL"), which was credited to additional paid-in capital in the third quarter of 2005. The tax benefit of the NOL was previously reserved for as a valuation allowance in additional paid-in capital since the NOL was originally associated with non-qualified stock option compensation expense recognized for tax purposes. The tax benefit became realizable as a result of the

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repatriation in the third quarter of 2005, and accordingly, income taxes payable was reduced and additional paid-in capital was credited for \$5.0 million.

Commitments:

The Company licenses certain technology and software from third parties, which expire at various dates through 2008. Fees paid for licenses were approximately \$0.8 million in 2005, \$1.1 million in 2004 and \$2.9 million in 2003. Future minimum licenses payable under existing license agreements as of December 31, 2005 are immaterial.

Contractual Obligations and Commercial Commitments

The following is a summary of the Company's commitments as of December 31, 2005 (in thousands):

Contractual Obligations	Payments Due by Year							
	Total	2006	2007	2008	2009	2010	2011	After 2011
Long-term debt(1)	\$ 500,000	\$ —	\$ —	\$ —	\$ 250,000	\$ 250,000	\$ —	\$ —
Operating leases	92,897	19,497	15,859	13,349	10,275	9,135	7,534	17,248
Other long-term liabilities(2)	—	—	—	—	—	—	—	—
Total	\$ 592,897	\$ 19,497	\$ 15,859	\$ 13,349	\$ 260,275	\$ 259,135	\$ 7,534	\$ 17,248

Other Commercial Commitments	Amount of Commitments Expiration Per Period							
	Total	2006	2007	2008	2009	2010	2011	After 2011
Letters of credit	\$ 1,633	\$ 1,633	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

- (1) The interest rates applicable to any U.S. borrowings under the New Credit Agreement and term loan and revolving loans under the existing credit agreement are, at the Company's option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 1/2%) or, on any Euro borrowings, the applicable 1, 2, 3, 6, 9 or 12 month LIBOR rate, in each case plus an interest rate margin based upon the Company's leverage ratio, which can range between 37.5 basis points and 112.5 basis points. At current and long-term debt and interest rate levels consistent with those at December 31, 2005, the Company's interest expense would be approximately \$44.0 million, annually.
- (2) Does not include normal purchases made in the ordinary course of business.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of business. The Company believes it has meritorious arguments in its current litigation matters and any outcome, either individually or in the aggregate, with the exception of the current litigation described in Item 3, Legal Proceedings, will not be material to the financial position or results of operations.

The Company paid approximately \$13.5 million in the first quarter of 2006 for the net assets of the food safety business of VICAM Limited Partnership. This is described in more detail in Note 6, Acquisitions, in the Notes to the Consolidated Financial Statements.

The Company has long-term liabilities for deferred employee compensation, including pension and supplemental executive retirement plans. The payments related to the supplemental retirement plan are not included above since they are dependent upon when the employee retires or leaves the Company, and whether the employee elects lump-sum or annuity payments. During fiscal year 2006, the Company expects to contribute approximately \$10.0 million to \$12.0 million to the Company's pension plans. Capital expenditures in 2006 are expected to be at similar levels expended in 2005 to support the growth in the business.

The Company is not aware of any undisclosed risks and uncertainties, including but not limited to product technical obsolescence, regulatory compliance, protection of intellectual property rights, changes in pharmaceutical industry spending, competitive advantages, current and pending litigation, and changes in foreign exchanges rates, that are reasonably likely to occur and could materially and negatively affect the Company's existing cash balance or its ability to borrow funds from its credit facility. The Company also believes there are no provisions in its credit facilities, its real estate leases, or supplier and collaborative agreements that would

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accelerate payments, require additional collateral or impair its ability to continue to enter into critical transactions. The Company has not paid any dividends and does not plan to pay any dividends in the foreseeable future.

Off-Balance Sheet Arrangements

The Company has not created, and is not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of its business that are not consolidated (to the extent of the Company's ownership interest therein) into the consolidated financial statements. The Company has not entered into any transactions with unconsolidated entities whereby it has subordinated retained interests, derivative instruments or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

Critical Accounting Policies and Estimates

Summary:

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

Revenue Recognition:

Sales of products and services are generally recorded based on product shipment and performance of service, respectively. Partial proceeds received in advance of product shipment or performance of service are recorded as deferred revenue in the consolidated balance sheets. Once the product is shipped, all advance payments received associated with that particular order are reclassified to accounts receivable to offset against the customer invoice. Shipping and handling costs are included in cost of sales net of amounts invoiced to the customer per the order. The Company's products generally carry one year of warranty. These costs are accrued at the point of shipment. Once the warranty period has expired, the customer may purchase a service contract. Service contract billings are generally invoiced to the customer at the beginning of the contract term, and revenue is amortized on a straight-line basis over the contract term. At December 31, 2005, the Company had current and long-term deferred revenue liabilities of approximately \$71.7 million and \$8.0 million, respectively.

Product shipments, including those for demonstration or evaluation, and service contracts are not recorded as revenues until a valid purchase order or master agreement is received specifying fixed terms and prices. Revenues are adjusted accordingly for changes in contract terms or if collectibility is not reasonably assured. The Company's method of revenue recognition for certain products requiring installation is in accordance with Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition in Financial Statements." Accordingly, revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the vendor's fee is fixed or determinable, and collectibility is reasonably assured and, if applicable, upon acceptance when acceptance criteria are specified or upon expiration of the acceptance period. With respect to installation obligations, the larger of the contractual cash

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holdback or the fair value of the installation service is deferred when the product is shipped and revenue is recognized as a multiple element arrangement when installation is complete. The Company determines the fair value of installation based upon a number of factors, including hourly service billing rates, estimated installation hours and comparisons of amounts charged by third parties. The Company believes that this amount approximates the amount that a third party would charge for the installation effort.

Sales of software are accounted for in accordance with Statement of Position (“SOP”) No. 97-2, “Software Revenue Recognition” as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions”. Nearly all of the Company’s instruments contain embedded operating system and data management software, which is included in the purchase price. Software is also sold separately and revenue is recognized upon shipment as typically no significant post-delivery obligations remain. Software upgrades are typically sold as part of a service contract with revenue recognized ratably over the term of the service contract.

Loss Provisions on Accounts Receivable and Inventory:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company does not request collateral from its customers but collectibility is enhanced through the use of credit card payments and letters of credit. The Company assesses collectibility based on a number of factors including, but not limited to, past transaction history with the customer, the credit-worthiness of the customer, industry trends and the macro-economic environment. Sales returns and allowances are estimates of future product returns related to current period revenue. Material differences may result in the amount and timing of revenue for any period if management made different judgments or utilized different estimates for sales returns and allowances for doubtful accounts. The Company’s accounts receivable balance at December 31, 2005 was \$256.8 million, net of allowances for doubtful accounts and sales returns of \$6.6 million. Historically, the Company has not experienced significant bad debt losses.

The Company values all of its inventories at the lower of cost or market on a first-in, first-out basis (“FIFO”). The Company estimates revisions to its inventory valuations based on technical obsolescence, historical demand, projections of future demand including that in the Company’s current backlog of orders, and industry and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional write-downs may be required. The Company’s inventory balance at December 31, 2005 was \$131.6 million, net of write-downs to net realizable value of \$13.4 million.

Long-Lived Assets, Intangible Assets and Goodwill:

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

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends; and
- significant changes or developments in strategic technological collaborations or legal matters which affect the Company’s capitalized patent, trademark and intellectual properties such as licenses.

When the Company determines that the carrying value of intangibles, long-lived assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators, it measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company’s current business model. In 2004, the Company recorded a \$4.0 million charge for an other-than-temporary impairment of its technology licenses with Sandia National Laboratories as a significant portion of the technology collaboration program was suspended. Net intangible assets, long-lived assets, and goodwill amounted to \$84.4 million, \$141.0 million, and \$210.6 million, respectively, as of December 31, 2005. The Company performs annual impairment

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reviews of its goodwill. The Company performed its annual review during 2005 and currently does not expect to record an impairment charge in the foreseeable future. However, there can be no assurance that at the time future reviews are completed, a material impairment charge will not be recorded.

Warranty:

Product warranties are recorded at the time revenue is recognized for certain product shipments. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company's previous estimates, revisions to the estimated warranty liability would be required. At December 31, 2005, the Company's warranty liability was \$11.7 million.

Income Taxes:

As part of the process of preparing the consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves the Company estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation, amortization, and inventory reserves, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheets. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes that recovery is not likely, the Company must establish a valuation allowance. In the event that actual results differ from these estimates, or the Company adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance which could materially impact its financial position and results of operations.

The Company has a significant income tax benefit associated with the exercise of its nonqualified stock options recorded to additional paid-in-capital. Historically, the Company believed that it was more likely than not that the U.S. deferred tax assets associated with this tax benefit would not be realized and as a result, a valuation allowance was established for all the deferred tax assets relating to U.S. income. This valuation allowance against U.S. assets was maintained until an appropriate level of taxable income in the U.S. could be sustained. In 2005, the Company believed it had reached an appropriate sustainable level of profitability in the U.S.; therefore, \$92.5 million of the valuation allowance was reversed, of which \$78.8 million was credited to additional paid-in capital and the balance was credited to goodwill related to an acquisition the Company made in 2004. The Company made this determination based on a review of the facts and circumstances at that time.

Litigation:

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

With respect to the claims referenced in Item 3, management of the Company to date has been able to make this determination, and thus has recorded charges, with respect to the claims described under the heading "Hewlett-Packard Company." As developments occur in these matters and additional information becomes available, management of the Company will reassess the probability of any losses and of their range, which may result in its recording charges or additional charges, which could materially impact the Company's results of operation or financial position.

Pension and Other Post-retirement Benefits:

Assumptions used in determining projected benefit obligations and the fair values of plan assets for the Company's pension plans and other post-retirement benefits are evaluated periodically by management in consultation with outside actuaries and investment advisors. Changes in assumptions are based on relevant company data. Critical assumptions, such as the discount rate used to measure the benefit obligations and the expected long-term rate of return on plan assets are evaluated and updated annually. The Company has assumed that the expected long-term rate of return on plan assets will be 8.00% for its U.S. defined-benefit pension plan which is the majority of the Company's benefit obligation and expense.

At the end of each year, the Company determines the discount rate that reflects the current rate at which the pension liabilities could be effectively settled. The Company determined the discount rate based on the analysis of the Mercer and Citigroup Pension Discount Curves for high quality investments and the Moody's Aa interest rate as of December 31, 2005 that best matched the timing of the plan's future cash flows for the period to maturity of the pension benefits. Once the interest rates were determined, the plan's cash flow was discounted at the spot interest rate back to the measurement date. At year-end 2005, the Company determined this rate to be 5.50% for its U.S. defined-benefit pension plan which is the majority of the Company's benefit obligation and expense. Post-retirement benefit plan discount rates are the same as those used by the Company's defined benefit pension plan in accordance with the provisions of SFAS No. 106, "Employers' Accounting for Post-retirement Benefits other than Pensions."

A one-quarter percentage point increase in the discount rate would decrease the Company's net periodic benefit cost for the U.S. pension plan by approximately \$0.4 million. A one-quarter percentage point change in the assumed long-term rate of return would impact the Company's net periodic benefit cost for the U.S. pension plan by approximately \$0.1 million.

Recent Accounting Standards Changes

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20 "Accounting Changes", and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principles. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. At the present time, the Company does not believe that adoption of SFAS 154 will have a material effect on its financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations", which is an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations". The interpretation requires a liability for the fair value of a conditional asset retirement obligation be recognized if the fair value of the liability can be reasonably estimated. The interpretation is effective for years ending after December 15, 2005. The interpretation is not expected to have a material impact on the Company's results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R) "Share-Based Payment" which amends SFAS No. 123 "Accounting for Stock-Based Compensation". This standard requires that all share-based payments to employees, including grants of employee stock options, be recognized in the statement of operations based on their fair values. The standard is effective for public companies for the first annual period beginning after June 15, 2005. The final standard allows alternative methods for determining fair value. The Company will use the Black-Scholes model to determine the fair value of its stock-based compensation awards. The Company has made changes to its equity compensation structure and will begin granting a combination of restricted stock units and non-qualified stock options. The Company estimates that the adoption of SFAS No. 123(R), under the modified prospective method, will result in a negative impact to earnings per diluted share, net of tax, of approximately \$0.21 to \$0.24 in 2006.

In April 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) 107 “Share-Based Payments” which expresses the SEC Staff’s views regarding the application of SFAS No. 123(R). As noted above, the adoption of SFAS No. 123(R), as applied using standards set forth in SAB 107, will have a material impact on the Company’s results of operations and financial position.

In December 2004, the FASB issued SFAS No. 153 “Exchanges of Nonmonetary Assets” which amends Accounting Principles Board Opinion No. 29. This standard requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. This standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and should be applied prospectively. The adoption of this standard did not have a material effect on the Company’s financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151 “Inventory Costs” which amends Accounting Research Bulletin No. 43 Chapter 4. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. At the present time, the Company believes the adoption of this standard will not have a material effect on its financial position, results of operations or cash flows.

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

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

The Company is primarily exposed to currency exchange-rate risk with respect to certain inter-company balances, forecasted transactions and cash flow, and net assets denominated in Euro, Japanese Yen and British Pound. The Company manages its foreign currency exposures on a consolidated basis, which allows the Company to analyze exposures globally and take into account offsetting exposures in certain balances. In addition, the Company utilizes derivative and non-derivative financial instruments to further reduce the net exposure to currency fluctuations.

The Company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates. The Company’s policy is to manage interest costs by using a mix of fixed and floating rate debt that management believes is appropriate. At times, to manage this mix in a cost efficient manner, the Company has periodically entered into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed upon notional amount.

Cash Flow Hedges

The Company uses interest rate swap agreements to hedge the risk to earnings associated with fluctuations in interest rates related to outstanding U.S. dollar floating rate debt. In the fourth quarter of 2005, the Company entered into a floating to fixed rate interest rate swap with a notional amount of \$200.0 million, to hedge floating rate debt related to the term loan facility of its outstanding debt, with a maturity date of June 2007. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax unrealized losses of \$0.2 million in accumulated other comprehensive income on this interest rate swap agreement. During the first quarter of 2004, the Company entered into a floating to fixed rate interest rate swap with a notional amount of \$125.0 million, to hedge floating rate debt related to the term loan tranche of its outstanding debt, with a maturity date of 21 months. The Company subsequently closed out the swap in the second quarter of 2004, with a realized gain of \$1.6 million. The total pre-tax amount of the gain that was recognized in earnings in 2004 was \$0.7 million. The remaining \$0.9 million was recognized in earnings in 2005 over the original term of the interest rate swap.

Assuming a hypothetical adverse change of 100 basis points in interest rates, the fair market value of the floating to fixed rate interest rate swap would decrease by approximately \$2.7 million and increase interest expense by approximately \$2.0 million.

Hedges of Net Investments in Foreign Operations

The Company has operations in various countries and currencies throughout the world, with approximately 30% of its sales denominated in Euros, 12% in Yen and smaller sales exposures in other currencies in 2005. As a result, the Company's financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. The Company uses cross-currency interest rate swaps, forward contracts and range forward contracts to hedge its stockholders' equity balance from the effects of fluctuations in currency exchange rates. These agreements are designated as foreign currency hedges of a net investment in foreign operations. Any increase or decrease in the fair value of cross-currency interest rate swap agreements, forward contracts or range forward contracts is offset by the change in the value of the hedged net assets of the Company's consolidated foreign affiliates. Therefore, these derivative instruments are intended to serve as an effective hedge of certain foreign net assets of the Company.

During 2005, the Company hedged its net investment in Euro foreign affiliates with cross-currency interest rate swaps, with notional values ranging from approximately \$30.0 million to approximately \$50.0 million. At December 31, 2005, the notional amount of the outstanding contracts was approximately \$50.0 million. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax gains of \$0.7 million in accumulated other comprehensive income, which consists of realized gains of \$0.7 million relating to closed Euro cross-currency interest rate swap agreements.

During 2005 and 2004, the Company hedged its net investment in Yen foreign affiliates with Japanese Yen cross-currency interest rate swaps, with notional values ranging from approximately \$26.0 million to approximately \$37.0 million, respectively. At December 31, 2005 and 2004, the notional amounts of the outstanding contracts were zero and \$37.0 million, respectively. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax realized losses of \$0.2 million in accumulated other comprehensive income on the closed Japanese Yen cross-currency interest rate swap agreements. For the year ended December 31, 2004, the Company recorded cumulative pre-tax losses of \$2.4 million in accumulated other comprehensive income, which consists of realized losses of \$1.6 million related to closed Japanese Yen cross-currency interest rate swap agreements and unrealized losses of \$0.8 million relating to the open Japanese Yen cross-currency interest rate swap agreements. For the year ended December 31, 2003, the Company recorded cumulative net pre-tax gains of \$1.6 million in accumulated other comprehensive income, which consists of realized gains of \$1.3 million relating to the closed Japanese Yen cross-currency interest rate swap agreements and unrealized gains of \$0.3 million relating to the open Japanese Yen cross-currency interest rate swap agreements.

During 2005 and 2004, the Company hedged its net investment in British Pound foreign affiliates with range forward agreements in British Pounds ranging from approximately £25.0 million to £75.0 million. Under the terms of the agreements the Company purchases an option below the current spot rate to sell British Pounds, and sells an option to their counterparties above the current spot rate to buy British Pounds, with option premiums that offset. At December 31, 2005, the Company had range forward agreements in British Pounds with a notional amount of £30.0 million outstanding. For the year ended December 31, 2005, the Company recorded a cumulative net pre-tax gain of \$6.1 million in accumulated other comprehensive income, which consists of realized gains of \$5.8 million related to the closed range forward agreements and unrealized gains of \$0.3 million related to the open British Pound range forward agreements. At December 31, 2004, the Company had no range forward agreements in British Pounds outstanding. For the year ended December 31, 2004, the Company recorded a realized cumulative net pre-tax loss of \$8.6 million to accumulated other comprehensive income, related to the closed range forward agreements.

During 2005, the Company hedged its net investment in British Pound foreign affiliates with forward foreign exchange contracts in British Pounds. At December 31, 2005, the Company had no forward exchange contracts in British Pounds used to hedge its net investment position. For the year ended December 31, 2005, the Company recorded a realized gain of \$1.6 million. For the year ended December 31, 2004, the Company

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recorded a cumulative net pre-tax gain of \$0.7 million in accumulated other comprehensive income, which consists of realized gains of \$0.5 million related to closed forward agreements and unrealized gains of \$0.2 million related to the British Pound forward agreements. As of December 31, 2004, the Company had forward foreign exchange contracts in British Pounds with a notional amount of approximately £45.0 million outstanding. For the year ended December 31, 2003, the Company recorded realized losses of \$3.3 million in accumulated other comprehensive income relating to forward foreign exchange contracts in British Pounds that were entered into and closed in 2003. As of December 31, 2003, the Company had no open forward foreign exchange contracts in British Pounds.

Assuming a hypothetical adverse change of 10% in year-end exchange rates (a weakening of the U.S. dollar), the fair market value of the cross-currency interest rate swap, range forwards and foreign exchange contracts agreements, designated as hedges of net investment in foreign operations, as of December 31, 2005, would decrease accumulated other comprehensive income by approximately \$10.4 million.

Other

The Company enters into forward foreign exchange contracts, principally to hedge the impact of currency fluctuations on certain inter-company balances. Principal hedged currencies include the Euro, Japanese Yen and British Pound. The periods of these forward contracts typically range from one to three months and have varying notional amounts which are intended to be consistent with changes in inter-company balances. Gains and losses on these forward contracts are recorded in selling and administrative expenses in the consolidated statements of operations. At December 31, 2005 and December 31, 2004, the Company held forward foreign exchange contracts with notional amounts totaling approximately \$72.9 million and \$62.9 million, respectively. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax gains of \$0.5 million, which consists of realized gains of \$1.5 million relating to the closed forward contracts and \$1.0 million of unrealized losses relating to the open forward contracts. For the year ended December 31, 2004, the Company recorded cumulative net pre-tax gains of \$4.6 million, which consists of realized gains of \$4.5 million on closed forward contracts and a \$0.1 million of unrealized gains on the open forward contracts. For the year ended December 31, 2003, the Company recorded cumulative pre-tax gains of \$5.4 million, which consists of realized gains of \$4.6 million on closed forward contracts and \$0.8 million of unrealized gains on the open forward contracts.

Assuming a hypothetical adverse change of 10% in year-end exchange rates (a strengthening of the U.S. dollar), the fair market value of the forward contracts, as of December 31, 2005, would decrease earnings by approximately \$7.3 million.

The Company is exposed to the risk of interest rate fluctuations from the investments of cash generated from operations. The Company's cash equivalents represent highly liquid investments, with original maturities of 90 days or less, in repurchase agreements and money market funds. Cash equivalents are convertible to a known amount of cash and carry an insignificant risk of change in value. The Company periodically maintains balances in various operating accounts in excess of federally insured limits.

Item 8: *Financial Statements and Supplementary Data*

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Waters Corporation:

We have completed integrated audits of Waters Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations, of stockholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Waters Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 6, 2006

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2005	2004
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 493,588	\$ 539,077
Accounts receivable, less allowances for doubtful accounts and sales returns of \$6,550 and \$7,100 at December 31, 2005 and 2004, respectively	256,809	271,731
Inventories	131,554	139,900
Other current assets	31,041	23,176
Total current assets	912,992	973,884
Property, plant and equipment, net	141,030	135,908
Intangible assets, net	84,363	85,249
Goodwill	210,571	228,537
Other assets	79,975	36,848
Total assets	\$ 1,428,931	\$ 1,460,426
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and debt	\$ 326,286	\$ 206,663
Accounts payable	44,243	46,180
Accrued employee compensation	23,044	33,709
Deferred revenue and customer advances	71,733	66,783
Accrued retirement plan contributions	12,931	10,655
Accrued income taxes	60,710	49,120
Accrued other taxes	14,024	12,547
Accrued warranty	11,719	10,565
Accrued litigation	5,340	4,652
Other current liabilities	33,861	52,116
Total current liabilities	603,891	492,990
Long-term liabilities:		
Long-term debt	500,000	250,000
Long-term portion of retirement benefits	33,074	30,980
Other long-term liabilities	8,334	7,770
Total long-term liabilities	541,408	288,750
Total liabilities	1,145,299	781,740
Commitments and contingencies (Notes 10, 12, 13, 15 and 19)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 5,000 shares authorized, none issued at December 31, 2005 and 2004	—	—
Common stock, par value \$0.01 per share, 400,000 shares authorized, 142,287 and 141,367 shares issued, 105,336 and 119,835 shares outstanding at December 31, 2005 and 2004, respectively	1,423	1,414
Additional paid-in capital	467,681	366,224
Retained earnings	1,104,557	902,582
Treasury stock, at cost, 36,951 and 21,532 shares at December 31, 2005 and 2004, respectively	(1,314,446)	(655,161)
Deferred compensation	(255)	(157)
Accumulated other comprehensive income	24,672	63,784
Total stockholders' equity	283,632	678,686
Total liabilities and stockholders' equity	\$ 1,428,931	\$ 1,460,426

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Product sales	\$ 834,673	\$ 806,801	\$ 723,151
Service sales	<u>323,563</u>	<u>297,735</u>	<u>235,054</u>
Total net sales	1,158,236	1,104,536	958,205
Cost of product sales	321,344	307,627	285,752
Cost of service sales	<u>157,011</u>	<u>147,180</u>	<u>112,096</u>
Total cost of sales	<u>478,355</u>	<u>454,807</u>	<u>397,848</u>
Gross profit	679,881	649,729	560,357
Selling and administrative expenses	321,694	300,150	264,252
Research and development expenses	66,905	65,241	59,242
Purchased intangibles amortization	5,005	4,814	4,242
Litigation provisions and settlement (Notes 12 and 13)	3,122	(9,277)	1,500
Loss on sale of business (Note 8)	—	—	5,031
Impairment of long-lived intangible asset (Note 9)	—	3,997	—
Restructuring and other charges, net (Note 14)	—	(54)	918
Expensed in-process research and development (Note 7)	<u>—</u>	<u>—</u>	<u>6,000</u>
Operating income	283,155	284,858	219,172
Other income (expense), net (Note 5)	(3,103)	(1,014)	(250)
Interest expense	(24,744)	(10,074)	(2,367)
Interest income	<u>19,255</u>	<u>11,901</u>	<u>7,131</u>
Income from operations before income taxes	274,563	285,671	223,686
Provision for income taxes (Note 11)	<u>72,588</u>	<u>61,618</u>	<u>52,795</u>
Net income	<u>\$ 201,975</u>	<u>\$ 224,053</u>	<u>\$ 170,891</u>
Net income per basic common share	\$ 1.77	\$ 1.87	\$ 1.39
Weighted average number of basic common shares	<u>114,023</u>	<u>119,640</u>	<u>123,189</u>
Net income per diluted common share	\$ 1.74	\$ 1.82	\$ 1.34
Weighted average number of diluted common shares and equivalents	<u>115,945</u>	<u>123,069</u>	<u>127,579</u>

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 201,975	\$ 224,053	\$ 170,891
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on sale of business	—	—	5,031
Provisions for doubtful accounts on accounts receivable	3,726	1,332	847
Expensed in process research and development	—	—	6,000
Provisions on inventory	7,093	7,349	8,848
Impairment of investments and other assets	4,820	5,011	250
Stock-based compensation	676	74	—
Deferred income taxes	10,235	1,468	(5,926)
Depreciation	23,669	22,075	21,983
Amortization of intangibles	20,016	19,851	11,865
Tax benefit related to stock option plans	4,872	32,012	17,582
Change in operating assets and liabilities, net of acquisitions and divestitures:			
(Increase) decrease in accounts receivable	(6,515)	(36,453)	10,938
Increase in inventories	(6,973)	(11,575)	(4,302)
Decrease (increase) in other current assets	1,102	(7,344)	(3,199)
(Increase) decrease in other assets	(2,534)	3,716	501
Increase (decrease) in accounts payable and other current liabilities	26,802	12,203	(30,005)
Increase in deferred revenue and customer advances	7,551	1,526	3,277
Increase (decrease) in accrued litigation	688	(16,095)	(60,120)
Increase in other liabilities	864	246	2,544
Net cash provided by operating activities	298,067	259,449	157,005
Cash flows from investing activities:			
Additions to property, plant, equipment, software capitalization and other intangibles	(51,045)	(66,236)	(34,586)
Business acquisitions, net of cash acquired	—	(42,369)	(35,204)
Proceeds from sale of business	—	—	1,183
Decrease in restricted cash	—	—	49,944
Net cash used in investing activities	(51,045)	(108,605)	(18,663)

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	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Cash flows from financing activities:			
Proceeds from debt issuances	915,512	885,053	682,428
Payments on debt	(545,889)	(674,699)	(443,605)
Payments of debt issuance costs	(443)	(1,578)	(436)
Proceeds from stock plans	16,801	44,982	27,824
Purchase of treasury shares	(659,285)	(231,287)	(324,578)
Proceeds (payments) of debt swaps and other derivatives contracts	1,289	(964)	(5,273)
Net cash (used in) provided by financing activities	(272,015)	21,507	(63,640)
Effect of exchange rate changes on cash and cash equivalents	(20,496)	9,945	18,767
(Decrease) increase in cash and cash equivalents	(45,489)	182,296	93,469
Cash and cash equivalents at beginning of period	539,077	356,781	263,312
Cash and cash equivalents at end of period	\$ 493,588	\$ 539,077	\$ 356,781
Supplemental cash flow information:			
Income taxes paid	\$ 27,743	\$ 28,574	\$ 39,353
Interest paid	\$ 23,995	\$ 9,676	\$ 3,457

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

WATERS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Statements of Comprehensive Income
	(In thousands)								
Balance December 31, 2002	132,182	\$ 1,322	\$ 251,203	\$ —	\$ 507,638	\$ (99,296)	\$ 4,443	\$ 665,310	
Comprehensive income, net of tax:									
Net income	—	—	—	—	170,891	—	—	170,891	\$ 170,891
Other comprehensive income (loss):									
Foreign currency translation	—	—	—	—	—	—	46,010	46,010	46,010
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	—	—	—	—	—	—	(6,688)	(6,688)	(6,688)
Minimum pension liability adjustment	—	—	—	—	—	—	116	116	116
Unrealized gains (losses) on investments, net	—	—	—	—	—	—	1,528	1,528	1,528
Other comprehensive income	—	—	—	—	—	—	40,966	40,966	40,966
Comprehensive income									\$ 211,857
Issuance of common stock for									
Employee Stock Purchase Plan	95	1	2,196	—	—	—	—	2,197	
Stock options exercised	4,431	44	25,583	—	—	—	—	25,627	
Tax benefit related to stock option plans	—	—	17,582	—	—	—	—	17,582	
Valuation allowance related to stock option deferred tax asset	—	—	(7,518)	—	—	—	—	(7,518)	
Treasury stock	—	—	—	—	—	(324,578)	—	(324,578)	
Balance December 31, 2003	136,708	\$ 1,367	\$ 289,046	\$ —	\$ 678,529	\$ (423,874)	\$ 45,409	\$ 590,477	
Comprehensive income, net of tax:									
Net income	—	—	—	—	224,053	—	—	224,053	\$ 224,053
Other comprehensive income (loss):									
Foreign currency translation	—	—	—	—	—	—	27,413	27,413	27,413
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	—	—	—	—	—	—	(9,341)	(9,341)	(9,341)
Minimum pension liability adjustment	—	—	—	—	—	—	427	427	427
Unrealized gains (losses) on investments, net	—	—	—	—	—	—	(124)	(124)	(124)
Other comprehensive income	—	—	—	—	—	—	18,375	18,375	18,375
Comprehensive income									\$ 242,428
Issuance of common stock for									
Employee Stock Purchase Plan	67	1	2,172	—	—	—	—	2,173	
Stock options exercised	4,585	46	42,763	—	—	—	—	42,809	
Tax benefit related to stock option plans	—	—	32,012	—	—	—	—	32,012	
Treasury stock	—	—	—	—	—	(231,287)	—	(231,287)	
Restricted common stock	7	—	231	(157)	—	—	—	74	
Balance December 31, 2004	141,367	\$ 1,414	\$ 366,224	\$ (157)	\$ 902,582	\$ (655,161)	\$ 63,784	\$ 678,686	
Comprehensive income, net of tax:									
Net income	—	—	—	—	201,975	—	—	201,975	\$ 201,975
Other comprehensive income (loss):									
Foreign currency translation	—	—	—	—	—	—	(44,383)	(44,383)	(44,383)
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	—	—	—	—	—	—	7,731	7,731	7,731
Minimum pension liability adjustment	—	—	—	—	—	—	(1,021)	(1,021)	(1,021)
	—	—	—	—	—	—	(1,439)	(1,439)	(1,439)

	Unrealized gains (losses) on investments, net								
Other comprehensive income	—	—	—	—	—	—	(39,112)	(39,112)	(39,112)
Comprehensive income									\$ 162,863
Issuance of common stock for									
Employee Stock Purchase Plan	76	1	2,671	—	—	—	—	—	2,672
Stock options exercised	824	8	14,121	—	—	—	—	—	14,129
Tax benefit related to stock option plans	—	—	4,872	—	—	—	—	—	4,872
Release of valuation allowance	—	—	78,753	—	—	—	—	—	78,753
Treasury stock	—	—	—	—	—	(659,285)	—	—	(659,285)
Restricted common stock	7	—	320	(320)	—	—	—	—	—
Amortization of restricted stock issuance	—	—	—	222	—	—	—	—	222
Other stock-based compensation	13	—	720	—	—	—	—	—	720
Balance December 31, 2005	142,287	\$ 1,423	\$ 467,681	\$ (255)	\$ 1,104,557	\$ (1,314,446)	\$ 24,672	\$ 283,632	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

1 Description of Business, Organization and Basis of Presentation

Waters Corporation, (“Waters” or the “Company”) an analytical instrument manufacturer, designs, manufactures sells and services, through its Waters Division, high performance liquid chromatography (“HPLC”), ultra performance liquid chromatography (“UPLC”) together with HPLC, herein referred to as (“LC”) and mass spectrometry (“MS”) instrument systems and associated service and support products including chromatography columns and other “consumable” products. These systems are complementary products that can be integrated together and used along with other analytical instruments. LC is a standard technique and is utilized in a broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials, and to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as “proteomics”) and environmental testing. LC is often combined with MS to create LC-MS instruments that include a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. As a result of the acquisitions of Creon Lab Control AG (“Creon”) in July 2003 and NuGenesis Technologies Corporation in February 2004, Waters Division entered the laboratory informatics market. Laboratory informatics consists of laboratory-to-enterprise scale software systems for managing and storing scientific information collected from a wide variety of instrumental test methods. Through its TA Instruments Division (“TA”), the Company designs, manufactures, sells and services thermal analysis and rheometry instruments which are used in predicting the suitability of polymers and viscous liquids for various industrial, consumer goods and health care products. In the third quarter of fiscal year 2003, the Company completed the integration of the LC and MS worldwide sales, service and support organizations. Accordingly, the Micromass operating segment has been integrated into the Waters operating segment. As discussed in Note 20 to the consolidated financial statements, the Company has two operating segments, Waters Division and TA, which have been aggregated into one reporting segment for financial statement purposes.

2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (“GAAP”) requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, product returns and allowances, bad debts, inventory valuation, equity investments, goodwill and intangible assets, income taxes, warranty and installation provisions, retirement plan obligations, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

Risks and Uncertainties

The Company is subject to risks common to companies in the analytical instrument industry, including, but not limited to, development by its competitors of new technological innovations, dependence on key personnel, protection and litigation of proprietary technology, fluctuations in foreign currency exchange rates, and compliance with regulations of the U.S. Food and Drug Administration and similar foreign regulatory authorities and agencies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reclassifications

Certain amounts from prior years have been reclassified in the accompanying financial statements in order to be consistent with the current year's classifications.

Principles of Consolidation

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

Translation of Foreign Currencies

For most of the Company's foreign operations, assets and liabilities are translated into U.S. dollars at exchange rates prevailing on the balance sheet date while revenues and expenses are translated at average exchange rates prevailing during the period. Any resulting translation gains or losses are included in accumulated other comprehensive income in the consolidated balance sheets. The Company's net sales derived from operations outside the United States were 65% in 2005, 64% in 2004 and 63% in 2003. Gains and losses from foreign currency transactions are included in net income in the consolidated statements of operations and were not material for the years presented.

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.

Restricted Cash

At December 31, 2002, restricted cash was \$49.9 million, which represented credit support for a standby letter of credit issued securing damages awarded plus interest with respect to the Applera patent litigation (Note 12). In April 2003, the Company made a payment of \$53.7 million for damages and interest relating to this patent litigation and, as a result, the Company is no longer required to maintain a restricted cash balance.

Concentration of Credit Risk

The Company sells its products and services to a significant number of large and small customers throughout the world, with net sales to the pharmaceutical industry of approximately 51% in 2005, 53% in 2004 and 53% in 2003. None of the Company's individual customers accounted for more than 3% of annual Company sales in 2005, 2004 or 2003. The Company performs continuing credit evaluations of its customers and generally does not require collateral, but in certain circumstances may require letters of credit or deposits. Historically, the Company has not experienced significant bad debt losses.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is based on historical write-off experience. The allowance for doubtful accounts is reviewed on a monthly basis. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance when the Company feels it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a summary of activity of the Company's allowance for doubtful accounts and sales returns for the year ended December 31, 2005 (in thousands):

	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Allowance for Doubtful Accounts and Sales				
Returns:				
2005	\$ 7,100	\$ 3,726	\$ (4,276)	\$ 6,550
2004	\$ 5,638	\$ 1,332	\$ 130	\$ 7,100
2003	\$ 5,826	\$ 847	\$ (1,035)	\$ 5,638

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 basis of assets and liabilities using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense while the costs of significant improvements are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives: buildings — thirty years, building improvements — five to thirty years, leasehold improvements — the shorter of the economic useful life or life of lease, and production and other equipment — two to ten years. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the consolidated balance sheets and related gains or losses are reflected in the consolidated statements of operations. There were no material gains or losses from retirement or sale of assets in 2005, 2004 and 2003.

Goodwill and Other Intangible Assets

The Company tests for goodwill impairment using a fair value approach at the reporting unit level annually, or earlier if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Additionally, the Company has elected to make January 1 the annual impairment assessment date for its reporting units. Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets", defines a reporting unit as an operating segment, or one level below an operating segment, if discrete financial information is prepared and reviewed by management. Goodwill is allocated to the reporting units at the time of acquisition. Under the impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, goodwill impairment is recognized to the extent that the carrying amount of goodwill exceeds the implied fair value of the goodwill. The fair value of reporting units were estimated using a discounted cash flows technique which includes certain management assumptions such as estimated future cash flows, estimated growth rates and discount rates.

The Company's intangible assets include purchased technology, capitalized software development costs, costs associated with acquiring Company patents, trademarks and intellectual properties, such as licenses, and debt issuance costs. Purchased intangibles are recorded at their fair market values as of the acquisition date and amortized over their estimated useful lives ranging from two to fifteen years. Other intangibles are amortized over a period ranging from three to thirteen years. Debt issuance costs are amortized over the life of the related debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Software Development Costs

The Company capitalizes software development costs for products offered for sale in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Capitalized costs are amortized to cost of sales over the period of economic benefit, which approximates a straight-line basis over the estimated useful lives of the related software products, generally three to four years (Note 9).

The Company capitalizes internal software development costs in accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Capitalized internal software development costs are amortized over the period of economic benefit which approximates a straight-line basis over ten years. At December 31, 2005 and 2004, capitalized internal software included in property, plant and equipment totaled \$2.2 million and \$2.7 million net of accumulated amortization of \$3.0 million and \$2.5 million, respectively.

Investments

The Company accounts for its investments that represent less than twenty percent ownership using SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard requires that certain debt and equity securities be adjusted to market value at the end of each accounting period. Unrealized market gains and losses are charged to earnings if the securities are traded for short-term profit. Otherwise, these securities are considered available-for-sale investments and unrealized gains and losses are charged or credited to other comprehensive income (loss) in stockholders' equity. Realized gains and losses on sales of investments are included in the consolidated statements of operations.

Investments for which the Company does not have the ability to exercise significant influence and for which there is not a readily determinable market value are accounted for under the cost method of accounting. The Company periodically evaluates the carrying value of its investments accounted for under the cost method of accounting and carries them at the lower of cost or estimated net realizable value. For investments in which the Company owns or controls between twenty and forty-nine percent of the voting shares, or over which it exerts significant influence over operating and financial policies, the equity method of accounting is used. The Company's share of net income or losses of equity investments is included in the consolidated statements of operations and was not material in any period presented. All investments at December 31, 2005 and 2004 are included in other assets and amounted to \$11.0 million and \$17.9 million, respectively.

Asset Impairments

The Company reviews its long-lived assets for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company evaluates the fair value of the asset, relying on a number of factors including but not limited to operating results, business plans, economic projections and anticipated future cash flows. Any change in the carrying amount of an asset as a result of the Company's evaluation is separately identified in the consolidated statements of operations.

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, accounts receivable, accounts payable and debt approximate cost.

Stockholders' Equity

On October 24, 2005, the Company's Board of Directors authorized the Company to repurchase up to \$500.0 million of its outstanding common shares over a two-year period. The Company has repurchased 5.6 million shares at a cost of \$216.1 million under this new program through December 31, 2005. The Company repurchased 15.4 million, 5.5 million, and 11.9 million common stock shares at a cost of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$659.3 million, \$231.3 million, and \$324.5 million, respectively, during 2005, 2004 and 2003, respectively, under the October 2005 and previously announced programs. The Company believes it has the resources to fund the common stock repurchases as well as to pursue acquisition opportunities in the future.

On August 9, 2002, the Board of Directors approved the adoption of a stock purchase rights plan where a dividend of one fractional preferred share purchase right (a "Right") was declared for each outstanding share of common stock, par value \$0.01 per share, of the Company. The dividend was paid on August 27, 2002 to the stockholders of record on that date. The Rights, which expire on August 27, 2012, become exercisable only under certain conditions. When they first become exercisable, each Right will entitle its holder to buy from Waters one one-hundredth of a share of new Series A Junior Participating Preferred Stock (authorized limit of 4,000) for \$120.00. When a person or group actually has acquired 15% or more of Waters' common stock, the Rights will then become exercisable for a number of shares of Waters' common stock with a market value of twice the exercise price (\$120.00) of each Right. In addition, the Rights will then become exercisable for a number of shares of common stock of the acquiring company with a market value of twice the exercise price per Right. The Board of Directors may redeem the Rights at a price of \$0.001 per Right up until 10 days following a public announcement that any person or group has acquired 15% or more of the Company's common stock.

Hedge Transactions

The Company records its hedge transactions in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated balance sheets at fair value as either assets or liabilities. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in earnings when the hedged item affects earnings; ineffective portions of changes in fair value are recognized in earnings.

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

The Company operates on a global basis and is exposed to the risk that its earnings, cash flows and stockholders' equity could be adversely impacted by fluctuations in currency exchange rates and interest rates.

Cash Flow Hedges

The Company uses interest rate swap agreements to hedge the risk to earnings associated with fluctuations in interest rates related to outstanding U.S. dollar floating rate debt. In the fourth quarter of 2005, the Company entered into a floating to fixed rate interest rate swap with a notional amount of \$200.0 million, to hedge floating rate debt related to the term loan facility of its outstanding debt, with a maturity date of June 2007. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax unrealized losses of \$0.2 million in accumulated other comprehensive income on this interest rate swap agreement. During the first quarter of 2004, the Company entered into a floating to fixed rate interest rate swap with a notional amount of \$125.0 million, to hedge floating rate debt related to the term loan tranche of its outstanding debt, with a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

maturity date of 21 months. The Company subsequently closed out the swap in the second quarter of 2004, with a realized gain of \$1.6 million. The total pre-tax amount of the gain that was recognized in earnings in 2004 was \$0.7 million. The remaining \$0.9 million was recognized in earnings in 2005 over the original term of the interest rate swap.

Hedges of Net Investments in Foreign Operations

The Company has operations in various countries and currencies throughout the world, with approximately 30% of its sales denominated in Euros, 12% in Yen and smaller sales exposures in other currencies in 2005. As a result, the Company's financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. The Company uses cross-currency interest rate swaps, forward contracts and range forward contracts to hedge its stockholders' equity balance from the effects of fluctuations in currency exchange rates. These agreements are designated as foreign currency hedges of a net investment in foreign operations. Any increase or decrease in the fair value of cross-currency interest rate swap agreements, forward contracts or range forward contracts is offset by the change in the value of the hedged net assets of the Company's consolidated foreign affiliates. Therefore, these derivative instruments are intended to serve as an effective hedge of certain foreign net assets of the Company.

During 2005, the Company hedged its net investment in Euro foreign affiliates with cross-currency interest rate swaps, with notional values ranging from approximately \$30.0 million to approximately \$50.0 million. At December 31, 2005, the notional amount of the outstanding contracts was approximately \$50.0 million. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax gains of \$0.7 million in accumulated other comprehensive income, which consists of realized gains of \$0.7 million relating to closed Euro cross-currency interest rate swap agreements.

During 2005 and 2004, the Company hedged its net investment in Yen foreign affiliates with Japanese Yen cross-currency interest rate swaps, with notional values ranging from approximately \$26.0 million to approximately \$37.0 million, respectively. At December 31, 2005 and 2004, the notional amounts of the outstanding contracts were zero and \$37.0 million, respectively. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax realized losses of \$0.2 million in accumulated other comprehensive income on the closed Japanese Yen cross-currency interest rate swap agreements. For the year ended December 31, 2004, the Company recorded cumulative pre-tax losses of \$2.4 million in accumulated other comprehensive income, which consists of realized losses of \$1.6 million related to closed Japanese Yen cross-currency interest rate swap agreements and unrealized losses of \$0.8 million relating to the open Japanese Yen cross-currency interest rate swap agreements. For the year ended December 31, 2003, the Company recorded cumulative net pre-tax gains of \$1.6 million in accumulated other comprehensive income, which consists of realized gains of \$1.3 million relating to the closed Japanese Yen cross-currency interest rate swap agreements and unrealized gains of \$0.3 million relating to the open Japanese Yen cross-currency interest rate swap agreements.

During 2005 and 2004, the Company hedged its net investment in British Pound foreign affiliates with range forward agreements in British Pounds ranging from approximately £25.0 million to £75.0 million. Under the terms of the agreements the Company purchases an option below the current spot rate to sell British Pounds, and sells an option to their counterparties above the current spot rate to buy British Pounds, with option premiums that offset. At December 31, 2005, the Company had range forward agreements in British Pounds with a notional amount of £30.0 million outstanding. For the year ended December 31, 2005, the Company recorded a cumulative net pre-tax gain of \$6.1 million in accumulated other comprehensive income, which consists of realized gains of \$5.8 million related to the closed range forward agreements and unrealized gains of \$0.3 million related to the open British Pound range forward agreements. At December 31, 2004, the Company had no range forward agreements in British Pounds outstanding. For the year ended December 31, 2004, the Company recorded a realized cumulative net pre-tax loss of \$8.6 million to accumulated other comprehensive income, related to the closed range forward agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During 2005, the Company hedged its net investment in British Pound foreign affiliates with forward foreign exchange contracts in British Pounds. At December 31, 2005, the Company had no forward exchange contracts in British Pounds used to hedge its net investment position. For the year ended December 31, 2005, the Company recorded a realized gain of \$1.6 million. For the year ended December 31, 2004, the Company recorded a cumulative net pre-tax gain of \$0.7 million in accumulated other comprehensive income, which consists of realized gains of \$0.5 million related to closed forward agreements and unrealized gains of \$0.2 million related to the British Pound forward agreements. As of December 31, 2004, the Company had forward foreign exchange contracts in British Pounds with a notional amount of approximately £45.0 million outstanding. For the year ended December 31, 2003, the Company recorded realized losses of \$3.3 million in accumulated other comprehensive income relating to forward foreign exchange contracts in British Pounds that were entered into and closed in 2003. As of December 31, 2003, the Company had no open forward foreign exchange contracts in British Pounds.

Other

The Company enters into forward foreign exchange contracts, principally to hedge the impact of currency fluctuations on certain inter-company balances. Principal hedged currencies include the Euro, Japanese Yen and British Pound. The periods of these forward contracts typically range from one to three months and have varying notional amounts which are intended to be consistent with changes in inter-company balances. Gains and losses on these forward contracts are recorded in selling and administrative expenses in the consolidated statements of operations. At December 31, 2005 and December 31, 2004, the Company held forward foreign exchange contracts with notional amounts totaling approximately \$72.9 million and \$62.9 million, respectively. For the year ended December 31, 2005, the Company recorded cumulative net pre-tax gains of \$0.5 million, which consists of realized gains of \$1.5 million relating to the closed forward contracts and \$1.0 million of unrealized losses relating to the open forward contracts. For the year ended December 31, 2004, the Company recorded cumulative net pre-tax gains of \$4.6 million, which consists of realized gains of \$4.5 million on closed forward contracts and a \$0.1 million of unrealized gains on the open forward contracts. For the year ended December 31, 2003, the Company recorded cumulative pre-tax gains of \$5.4 million, which consists of realized gains of \$4.6 million on closed forward contracts and \$0.8 million of unrealized gains on the open forward contracts.

Revenue Recognition

Sales of products and services are generally recorded based on product shipment and performance of service, respectively. Product shipments, including those for demonstration or evaluation, and service contracts are not recorded as revenues until a valid purchase order or master agreement is received specifying fixed terms and prices. Proceeds received in advance of product shipment or performance of service are recorded as deferred revenue in the consolidated balance sheets. Shipping and handling costs are included in cost of sales net of amounts invoiced to the customer per the order.

The Company's method of revenue recognition for certain products requiring installation is in accordance with Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition in Financial Statements." Accordingly, revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the vendor's fee is fixed or determinable, and collectibility is reasonably assured and, if applicable, upon acceptance when acceptance criteria are specified or upon expiration of the acceptance period. With respect to installation obligations, the larger of the contractual cash holdback or the fair value of the installation service is deferred when the product is shipped and revenue is recognized as a multiple element arrangement when installation is complete. The Company determines the fair value of installation based on several factors, including hourly service billing rates, estimated installation hours and comparisons of amounts charged by third parties.

The Company recognizes product revenue when legal title has transferred and risk of loss passes to the customer. The Company generally structures its sales arrangements as FOB shipping point or international

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

equivalent and accordingly, recognizes revenue upon shipment. In some cases, FOB destination based shipping terms are included in sales arrangements in which cases revenue is recognized when the products arrive at the customer site.

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

Sales of software are accounted for in accordance with Statement of Position (“SOP”) No. 97-2, “Software Revenue Recognition” as amended by SOP 98-9, “Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions”. Nearly all of the Company’s instruments contain embedded operating system and data management software, which is included in the purchase price. Software is also sold separately and revenue is recognized upon shipment as typically no significant post-delivery obligations remain. Software upgrades are typically sold as part of a service contract with revenue recognized ratably over the term of the service contract.

The Company assists customers in obtaining financing with an independent third-party leasing company with respect to certain product sales. Revenue is generally recognized upon product shipment under these arrangements. The Company receives payment from the leasing company shortly after shipment, provided delivery and credit documentation meets contractual criteria. The customer is obligated to pay the leasing company but the Company retains some credit risk if the customer is unable to pay. Accordingly, the Company reduces revenue equal to pre-established loss-pool criteria, including contracts with recourse. The Company’s credit risk is significantly reduced through loss-pool limitations and re-marketing rights in the event of a default.

Product Warranty Costs

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

The following is a summary of the activity of the Company’s accrued warranty liability for the year ended December 31, 2005 (in thousands):

	<u>Balance at Beginning of Period</u>	<u>Accruals for Warranties</u>	<u>Settlements Made</u>	<u>Balance at End of Period</u>
Accrued warranty liability:				
2005	\$ 10,565	\$ 19,679	\$ (18,525)	\$ 11,719
2004	\$ 11,051	\$ 19,915	\$ (20,401)	\$ 10,565
2003	\$ 9,562	\$ 15,611	\$ (14,122)	\$ 11,051

Advertising Costs

All advertising costs are expensed as incurred and included in selling and administrative expenses in the consolidated statements of operations. Advertising expenses for 2005, 2004 and 2003 were \$8.5 million, \$6.4 million and \$7.5 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Research and Development Expenses

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

Expensed In-Process Research and Development Expenses

Costs to acquire in-process research and development (“IPR&D”) projects and technologies, which have not reached technological feasibility at the date of acquisition and have no alternative future use, are expensed as incurred (Note 7).

Stock-Based Compensation

The Company has five stock-based compensation plans, which are described in Note 16. The Company uses the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion (“APB”) 25, “Accounting for Stock Issued to Employees”, and related interpretations, including Financial Interpretation (“FIN”) 44, “Accounting for Certain Transactions Involving Stock Compensation”, for its plans. No compensation expense has been recognized at the grant date for its fixed employee stock option plans, except as noted below, or its employee stock purchase plan since all stock based compensation awards are granted with the exercise price at the current fair value of the Company’s common stock as of the date of the award. The cost of time-based restricted stock awards is initially recorded as deferred compensation and expensed over the respective vesting period. Stock-based compensation expense recorded, related to restricted stock awards, except as noted below, was immaterial for 2005 and 2004.

In 2005, the Company approved an amendment to accelerate the vesting of approximately 12 thousand unvested stock options and to extend the expiration date of approximately 36 thousand stock options granted to a retiring non-employee director of the Company. The Company also approved an amendment to accelerate the vesting of 2 thousand shares of the Company’s restricted common stock granted to the same director. Under APB 25 and FIN 44 these modifications resulted in a charge which was recorded in selling and administrative expense in the 2005 consolidated statements of operations of approximately \$0.5 million.

On December 31, 2004, the Company approved an amendment to accelerate the vesting of approximately 238 thousand unvested stock options granted between December 2000 and February 2001 to certain employees of the Company. These options had an exercise price significantly greater than the market value of the Company’s stock at that time; hence, in accordance with APB 25 and FIN 44, no compensation expense was recorded in the consolidated statements of operations. Each stock option was scheduled to vest primarily in 2005, but became fully vested and exercisable on December 31, 2004. The exercise price and number of shares underlying each affected stock option were unchanged. The acceleration of these options was primarily done as a result of the issuance of SFAS No. 123(R), “Share-Based Payment”, which, under the modified prospective method, requires the expensing of unvested stock options in the first annual reporting period that begins after June 15, 2005. As a result of this acceleration, the Company recognized share-based compensation, net of related tax effects, of \$9.1 million in the fourth quarter of 2004 in the pro forma net income disclosure for SFAS No. 123, “Accounting for Stock-Based Compensation”.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table illustrates the effect on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123 for the Company's five stock-based compensation plans for all of the periods shown.

Compensation Expense — Fair Value Method			
(in thousands, except per share data)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income, as reported December 31	\$ 201,975	\$ 224,053	\$ 170,891
Deduct: total stock-based employee compensation expense, net of related tax effects	(22,729)	(39,496)	(25,999)
Add: stock-based compensation recognized in the consolidated statements of operations, net of related tax effects	<u>556</u>	<u>59</u>	<u>—</u>
Pro forma net income	<u>\$ 179,802</u>	<u>\$ 184,616</u>	<u>\$ 144,892</u>
Net income per share:			
Basic — as reported	\$ 1.77	\$ 1.87	\$ 1.39
Basic — pro forma	\$ 1.58	\$ 1.54	\$ 1.18
Diluted — as reported	\$ 1.74	\$ 1.82	\$ 1.34
Diluted — pro forma	\$ 1.55	\$ 1.50	\$ 1.14

The fair value of each option grant under SFAS No. 123 was estimated on the date of grant using the Black-Scholes option-pricing model. Beginning in 2005, the Company used implied volatility on its publicly traded options as the basis for its estimate of expected volatility. The expected volatility assumption of all grants issued prior to 2005 was derived from the Company's historical volatility. In 2005, the Company changed its stock-based compensation structure and plans to begin granting a combination of restricted stock units and non-qualified stock options. The expected life assumption for 2005 grants is based on historical experience for the new population of non-qualified stock optionees. Relevant data are described below (options issued are in thousands):

Options Issued and Significant Assumptions Used to Estimate Option Fair Values			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Options issued	551	1,975	2,104
Risk-free interest rate	4.3	3.8	4.1
Expected life in years	6.0	5.5	7.5
Expected volatility	.270	.552	.541
Expected dividends	—	—	—

Weighted Average Exercise Price and Fair Values of Options on the Date of Grant			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Exercise price	\$ 39.51	\$ 46.79	\$ 31.60
Fair value	\$ 14.22	\$ 25.10	\$ 20.13

Income Per Share

In accordance with SFAS No. 128, "Earnings Per Share," the Company presents two earnings per share ("EPS") amounts. Income per basic common share is based on income available to common shareholders and the weighted average number of common shares outstanding during the periods presented. Income per diluted common share includes additional dilution from potential common stock, such as stock issuable pursuant to the exercise of stock options outstanding.

Comprehensive Income

The Company accounts for comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." The statement establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. The statement requires that all

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

Recent Accounting Standards Changes

In May 2005, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 154 “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20 “Accounting Changes”, and FASB Statement No. 3 “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principles. This Statement requires retrospective application to prior periods’ financial statements of changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. At the present time, the Company does not believe that adoption of SFAS 154 will have a material effect on its financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations”, which is an interpretation of FASB Statement No. 143, “Accounting for Asset Retirement Obligations”. The interpretation requires a liability for the fair value of a conditional asset retirement obligation be recognized if the fair value of the liability can be reasonably estimated. The interpretation is effective for years ending after December 15, 2005. The interpretation is not expected to have a material impact on the Company’s results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R) “Share-Based Payment” which amends SFAS No. 123 “Accounting for Stock-Based Compensation”. This standard requires that all share-based payments to employees, including grants of employee stock options, be recognized in the statement of operations based on their fair values. The standard is effective for public companies for the first annual period beginning after June 15, 2005. The final standard allows alternative methods for determining fair value. The Company will use the Black-Scholes model to determine the fair value of its stock-based compensation awards. The Company has made changes to its equity compensation structure and plans to begin granting a combination of restricted stock units and non-qualified stock options. The Company estimates that the adoption of SFAS No. 123(R), under the modified prospective method, will result in a negative impact to earnings per diluted share, net of tax, of approximately \$0.21 to \$0.24 in 2006.

In April 2005, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) 107 “Share-Based Payments” which expresses the SEC Staff’s views regarding the application of SFAS No. 123(R). As noted above, the adoption of SFAS No. 123(R), as applied using standards set forth in SAB 107, will have a material impact on the Company’s results of operations and financial position.

In December 2004, the FASB issued SFAS No. 153 “Exchanges of Nonmonetary Assets” which amends Accounting Principles Board Opinion No. 29. This standard requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. This standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and should be applied prospectively. The adoption of this standard did not have a material effect on the Company’s financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151 “Inventory Costs” which amends Accounting Research Bulletin No. 43 Chapter 4. This standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. At the present time, the Company believes the adoption of this standard will not have a material effect on its financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3 Inventories

Inventories are classified as follows (in thousands):

	December 31	
	2005	2004
Raw materials	\$ 45,257	\$ 51,777
Work in progress	12,908	14,125
Finished goods	73,389	73,998
Total inventories	\$ 131,554	\$ 139,900

4 Property, Plant and Equipment

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

	December 31	
	2005	2004
Land and land improvements	\$ 8,199	\$ 7,877
Buildings and leasehold improvements	96,036	88,834
Production and other equipment	188,534	181,800
Construction in progress	10,407	8,859
Total property, plant and equipment	303,176	287,370
Less: accumulated depreciation and amortization	(162,146)	(151,462)
Property, plant and equipment, net	\$ 141,030	\$ 135,908

During 2005, the Company retired and disposed of approximately \$9.6 million of property, plant and equipment, most of which was fully depreciated and no longer in use. Gains and losses on disposal were immaterial.

5 Business Investments

In the fourth quarter of 2005, the Company recorded a \$4.8 million pre-tax charge for an other-than-temporary impairment for the full value of the Company's investment in Beyond Genomics, Inc. This charge was recorded based on the Company's assessment of Beyond Genomics, Inc.'s current financial condition and uncertainty surrounding their ability to raise necessary funding.

In November 2000 and February 2002, the Company made minority equity investments in GeneProt™, Inc. ("GeneProt"), a privately held company. The investment in GeneProt was accounted for under the cost method of accounting. To the Company's knowledge, due to changes in GeneProt's ability to generate enough commercial interest to expand its business in the U.S. market, the Company recorded pre-tax charges of \$1.0 million to other income (expense) in the consolidated statements of operations during the year ended December 31, 2004, for an other-than-temporary impairment of its investment in GeneProt. The investment in GeneProt is zero at December 31, 2005 and December 31, 2004.

In June 2000, the Company formed a strategic alliance with Variagenics, Inc. ("Variagenics"), a publicly traded company, to develop and commercialize genetic variance reagent kits for use in the clinical development of pharmaceutical products. Variagenics was considered a leader in applying genetic variance information to the drug development process. In July 2000, the Company paid Variagenics \$7.5 million for a minority common stock equity ownership. The investment in Variagenics was included in other assets and carried at fair value with unrealized gains and losses reported as a separate component of other comprehensive income (loss). On January 31, 2003, Variagenics was merged with Hyseq Pharmaceuticals and is now named

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Nuvelo, Inc. (“Nuvelo”). In 2005, the Company sold its Nuvelo, Inc. common stock for \$2.5 million resulting in a gain of \$1.7 million which was recorded in other income in the consolidated statements of operations. The carrying amount, which approximated market value, of this investment was zero and \$3.0 million at December 31, 2005 and 2004, respectively.

6 Acquisitions*NuGenesis:*

In February 2004, the Company acquired all of the capital stock of NuGenesis Technologies Corporation (“NuGenesis”), a company headquartered in Westborough, Massachusetts, for approximately \$42.9 million in cash. NuGenesis developed and marketed the NuGenesis Scientific Data Management System (“SDMS”).

The acquisition of NuGenesis was accounted for under the purchase method of accounting and the results of operations of NuGenesis have been included in the consolidated results of the Company from the acquisition date. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated \$13.1 million of the purchase price to intangible assets comprised of customer lists, trademarks and other purchased intangibles. The excess purchase price of \$34.7 million after this allocation has been accounted for as goodwill.

The Company considered a number of factors to determine the purchase price allocation, including engaging a third party valuation firm to independently appraise the fair value of certain assets acquired. The following table presents the fair values of assets and liabilities recorded in connection with the NuGenesis acquisition (in thousands):

Cash	\$ 1,983
Accounts receivable	3,079
Inventory	121
Other current assets	194
Goodwill	34,741
Intangible assets	13,100
Fixed assets	722
Other assets	<u>162</u>
Total assets acquired	<u>54,102</u>
Accrued expenses and other current liabilities	6,817
Deferred tax liability	<u>4,348</u>
Total liabilities acquired	<u>11,165</u>
Cash consideration paid	<u>\$ 42,937</u>

In connection with the NuGenesis purchase price allocation, deferred tax liabilities were established for the amortization of intangible assets for book purposes that were not deductible for tax purposes in the U.S. In the third quarter of 2004, the Company transferred the NuGenesis intangible assets to a foreign wholly-owned subsidiary, where the Company expects to deduct the amortization of the intangible assets for book and tax purposes. As a result, deferred tax liabilities and goodwill were reduced by \$4.6 million during the year ended December 31, 2004. In 2005, as a result of the releasing of the deferred tax valuation allowance related to deferred tax assets acquired in the NuGenesis acquisition, the Company reduced goodwill by approximately \$13.4 million.

The Company recorded approximately \$1.1 million in purchase accounting liabilities relating to the NuGenesis acquisition. Approximately \$0.4 million had been utilized and \$0.7 million has been reversed as of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2004. The reversal was due to a change in management's plan to continue use of a facility lease assumed as part of the acquisition until the end of its term in June 2005.

Creon:

Effective July 1, 2003, the Company acquired all of the capital stock of Creon, a Company headquartered in Cologne, Germany, for approximately \$16.3 million in cash. Creon specialized in Laboratory Information Management Software ("LIMS") solutions.

The acquisition of Creon was accounted for under the purchase method of accounting and the results of operations of Creon have been included in the consolidated results of the Company from the acquisition date. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. In conjunction with the acquisition in 2003, the Company recorded a charge of \$6.0 million for the write-off of acquired in-process research and development. The technological feasibility of in-process research and development projects had not been established at the date of acquisition and they had no alternative future use.

Rheometrics:

On January 15, 2003, the Company acquired the worldwide rheometry business of Rheometrics for approximately \$16.5 million in cash. This transaction was accounted for under the purchase method of accounting and the results of operations of Rheometrics have been included in the consolidated results of the Company from the acquisition date. This business has been integrated into existing worldwide TA operations. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values.

The Company recorded approximately \$4.1 million in purchase accounting liabilities relating to the Rheometrics acquisition. The purchase accounting liabilities included \$1.2 million for severance costs for approximately 65 employees, all of whom were terminated as of December 31, 2004, and \$0.9 million in facilities related costs for three facilities, all of which have been closed as of December 31, 2004. During 2005, the Company reversed \$0.1 million of accruals established during purchase accounting against goodwill since it was no longer required.

The following is a summary of activity of the Rheometrics acquisition schedule of amounts accrued under purchase accounting and related utilization (in thousands):

	<u>Balance December 31, 2004</u>	<u>Amounts</u>	<u>Utilization and Reversals</u>	<u>Balance December 31, 2005</u>
Relocation	\$ 73	\$ —	\$ (3)	\$ 70
Supplier and contract terminations	35	—	(35)	—
Facility related costs	153	—	(153)	—
Total	<u>\$ 261</u>	<u>\$ —</u>	<u>\$ (191)</u>	<u>\$ 70</u>

Other:

During the year ended December 31, 2004, the Company acquired various tangible and intangible assets of certain Asian distributors totaling approximately \$1.4 million. In 2003, the Company made similar acquisitions in Asia and Ireland totaling approximately \$5.4 million.

The following represents the pro forma results of the ongoing operations for Waters, NuGenesis and Creon as though the acquisitions of NuGenesis and Creon had occurred at the beginning of each period shown (in thousands, except per share data). The pro forma results exclude expensed in-process research and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

development. The pro forma information, however, is not necessarily indicative of the results that would have resulted had the acquisition occurred at the beginning of the periods presented, nor is it necessarily indicative of future results.

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Net revenues	\$ 1,158,236	\$ 1,105,852	\$ 984,080
Net income	\$ 201,975	\$ 221,188	\$ 173,918
Income per basic common share (excluding expensed in-process research and development charge):			
Net income	\$ 1.77	\$ 1.85	\$ 1.41
Income per diluted common share (excluding expensed in-process research and development charge):			
Net income	\$ 1.74	\$ 1.80	\$ 1.36

The pro forma effects of the Rheometrics and Other acquisitions are immaterial.

In the first quarter of 2006, the Company acquired the net assets of the food safety business of VICAM Limited Partnership for approximately \$13.5 million. This transaction will be accounted for under the purchase method of accounting. During the first quarter of 2006, the Company will record each acquired asset and liability assumed at its fair value, which is subject to future adjustment when appraisals or other valuation data have been obtained.

7 Expensed In-Process Research and Development

In connection with the acquisition of Creon, the Company wrote off the fair value of purchased IPR&D of various projects for the development of new products and technologies in the amount of \$6.0 million. The amount was determined by identifying research projects for which technological feasibility had not been established and had no alternative future uses. As of the acquisition date, there were four projects that met the above criteria. The significant IPR&D projects identified consist of the eLab NotebookTM and the automatic LC-MS dereplication system. The IPR&D charges associated with these projects were \$4.5 million and \$0.8 million, respectively.

Management determined the valuation of the IPR&D using a number of factors, including engaging a third party valuation firm to provide an independent appraisal. The value was based primarily on the discounted cash flow method. This valuation included consideration of (i) the stage of completion of each of the projects, (ii) the technological feasibility of each of the projects, (iii) whether the projects had an alternative future use, and (iv) the estimated future residual cash flows that could be generated from the various projects and technologies over their respective projected economic lives.

The primary basis for determining the technological feasibility of these projects was whether the product has met predetermined design specifications and complex functionality. As of the acquisition date, the IPR&D projects had not reached predetermined design specifications and complex functionality. In assessing the technological feasibility of a project, consideration was also given to the level of complexity in future technological hurdles that each project had to overcome.

Future residual cash flows that could be generated from each of the projects were determined based upon management's estimate of future revenue and expected profitability of the various products and technologies involved. These projected cash flows were then discounted to their present values taking into account management's estimate of future expenses that would be necessary to bring the projects to completion. The discount rates include a rate of return, which accounts for the time value of money, as well as risk factors that reflect the economic risk that the cash flows projected may not be realized. The cash flows were discounted at discount rates ranging from 55% to 60% per annum, depending on the project's stage of completion and the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

type of complex functionality needed. This discounted cash flow methodology for the various projects included in the purchased IPR&D resulted in a total valuation of \$6.0 million. Although work on the projects related to the IPR&D continued after the acquisition, the amount of the purchase price allocated to IPR&D was written off because the projects underlying the IPR&D that was being developed were not considered technologically feasible as of the acquisition date.

8 Divestiture of Business

On March 26, 2003, the Company sold the net assets of its mass spectrometry inorganic product line for approximately \$1.2 million in cash and the balance in notes receivable. Assets sold included inventory and certain accounts receivable, and liabilities assumed by the acquirer consisted of deferred service sales and advance payment obligations, and warranty and installation obligations. The Company recorded a loss on disposal of approximately \$5.0 million, including severance costs of approximately \$0.3 million. This business generated sales of approximately \$14.0 million per year with no significant effects to earnings per share results.

9 Goodwill and Other Intangibles

The carrying amount of goodwill was \$210.6 million and \$228.5 million at December 31, 2005 and 2004, respectively. The decrease is primarily attributable to the release of a deferred tax asset valuation allowance of approximately \$13.4 million associated with the NuGenesis acquisition, resulting in a credit to goodwill. The additional change in goodwill is attributable to a \$4.4 million decrease relating to currency translation and the reversal of \$0.1 million of goodwill relating to an accrual established as part of the Rheometrics purchase, since it was no longer required.

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

	December 31, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period
Purchased intangibles	\$ 61,827	\$ 27,250	11 years	\$ 64,814	\$ 22,812	11 years
Capitalized software	85,089	47,846	3 years	66,186	35,384	3 years
Licenses	9,548	5,052	9 years	9,500	4,122	10 years
Patents and other intangibles	12,137	4,090	8 years	9,829	2,762	8 years
Total	\$ 168,601	\$ 84,238	7 years	\$ 150,329	\$ 65,080	7 years

Foreign currency translation decreased the gross carrying value of intangible assets by approximately \$3.3 million in 2005.

For the years ended December 31, 2005, 2004 and 2003, amortization expense for intangible assets was \$20.0 million, \$19.9 million and \$11.9 million, respectively. Amortization expense for intangible assets is estimated to be approximately \$20.1 million for each of the next five years. Accumulated amortization for intangible assets decreased approximately \$0.9 million in 2005 due to the effect of foreign currency translation.

During the year ended December 31, 2004, the Company acquired approximately \$16.1 million of purchased intangibles as a result of the NuGenesis acquisition (Note 6) and other various customer lists and distributor rights, mostly in Asia. In addition, foreign currency translation increased intangible assets by approximately \$1.9 million in 2004.

During the year ended December 31, 2004, the Company retired approximately \$7.9 million in fully amortized purchased intangibles and \$2.8 million in fully amortized capitalized software related to thermal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

analysis technology no longer in use. During 2004, the Company recorded a pre-tax charge of \$4.0 million in the consolidated statements of operations for the impairment of a license with Sandia National Laboratories.

10 Debt

In November 2005, the Company entered into a new Credit Agreement (the “November 2005 Credit Agreement”) that provides for a \$250.0 million term loan facility due in November 2010. The Company may, on a single occasion, request of the lender group that the facility be increased up to an additional \$100.0 million. The Company plans to use the proceeds of the term loan to finance the repurchase of common stock under its stock repurchase program previously approved by its Board of Directors and for general corporate purposes. The interest rates applicable to any U.S. borrowings under the November 2005 Credit Agreement are, at the Company’s option, equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 1/2%) or, on any Euro borrowings, the applicable 1, 2, 3, 6, 9 or 12 month LIBOR rate, in each case plus an interest rate margin based upon the Company’s leverage ratio, which can range between 37.5 basis points and 112.5 basis points. The November 2005 Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1, and a leverage ratio test of not more than 3.25:1, for any period of four consecutive fiscal quarters, respectively. In addition, the November 2005 Credit Agreement includes negative covenants that are customary for investment grade credit facilities and are similar in nature to ones contained in the Company’s existing credit facility. The November 2005 Credit Agreement also contains certain customary representations and warranties, affirmative covenants and events of default, similar in nature to those in the Company’s existing credit facility.

In December 2004, the Company entered into a syndicated committed Credit Agreement (the “Credit Agreement”) that provides for a \$250.0 million term loan facility due in December 2009 and, subsequent to the amendment discussed below, a \$550.0 million revolving facility, which includes both a letter of credit and a swingline subfacility. In October 2005, the Company exercised the \$100.0 million expansion feature in the credit agreement dated December 2004, increasing the amount from \$700.0 million to \$800.0 million. The Company plans to use the proceeds of the additional borrowings, if and when utilized, for general corporate purposes as provided for under the Credit Agreement. In October 2005, the Company amended the Credit Agreement (the “Amended Credit Agreement”) to increase the leverage ratio test from not more than 3.0:1 for any period of four consecutive fiscal quarters, to 3.25:1 and to amend the definition of Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) to exclude stock-based compensation to the extent deducted from consolidated net income pursuant to SFAS 123(R), “Share-Based Payment”. All other terms and conditions under the original Credit Agreement with respect to interest rates, interest coverage ratio test, maturity dates and affirmative and negative covenants remained substantially the same in the Amended Credit Agreement.

As of December 31, 2005, the Company had \$250.0 million borrowed under the November 2005 Credit Agreement and \$560.0 million under the Amended Credit Agreement for a total of \$810.0 million borrowed under the two credit agreements and an amount available to borrow of \$238.4 million after outstanding letters of credit. In total, \$500.0 million of the total debt was classified as long-term debt and \$310.0 million classified as short-term debt at December 31, 2005 in the consolidated balance sheets. At December 31, 2004, the Company had aggregate borrowings under the Amended Credit Agreement of \$440.0 million. The Company, and its foreign subsidiaries, also had available short-term lines of credit, totaling \$76.9 million at December 31, 2005 and \$95.7 million at December 31, 2004. At December 31, 2005 and 2004, related short-term borrowings were \$16.3 million at a weighted average interest rate of 3.11% and \$16.7 million at a weighted average interest rate of 2.45%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11 Income Taxes

Income tax data for the years ended December 31, 2005, 2004 and 2003 follow in the tables below (in thousands).

	Year Ended December 31		
	2005	2004	2003
The components of income from operations before income taxes were as follows:			
Domestic	\$ 53,757	\$ 83,573	\$ 55,580
Foreign	<u>220,806</u>	<u>202,098</u>	<u>168,106</u>
Total	<u>\$ 274,563</u>	<u>\$ 285,671</u>	<u>\$ 223,686</u>
The components of the current and deferred income tax provision from operations were as follows:			
Current	\$ 63,437	\$ 58,674	\$ 46,008
Deferred	<u>9,151</u>	<u>2,944</u>	<u>6,787</u>
Total	<u>\$ 72,588</u>	<u>\$ 61,618</u>	<u>\$ 52,795</u>
The components of the provision for income taxes from operations were as follows:			
Federal	\$ 39,852	\$ 28,262	\$ 20,077
State	4,488	4,061	2,066
Foreign	<u>28,248</u>	<u>29,295</u>	<u>30,652</u>
Total	<u>\$ 72,588</u>	<u>\$ 61,618</u>	<u>\$ 52,795</u>
The differences between income taxes computed at the United States statutory rate and the provision for income taxes are summarized as follows:			
Federal tax computed at U.S. statutory income tax rate	\$ 96,097	\$ 99,985	\$ 78,290
Extraterritorial income exclusion	(3,384)	(3,061)	(2,665)
State income tax, net of federal income tax benefit	1,286	2,640	1,343
Net effect of foreign operations	(44,658)	(37,875)	(23,811)
AJCA dividend repatriation	24,000	—	—
Other, net	<u>(753)</u>	<u>(71)</u>	<u>(362)</u>
Provision for income taxes	<u>\$ 72,588</u>	<u>\$ 61,618</u>	<u>\$ 52,795</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31	
	2005	2004
The tax effects of temporary differences and carryforwards which gave rise to deferred tax assets and deferred tax (liabilities) were as follows:		
Deferred tax assets:		
Net operating losses and credits	\$ 125,632	\$ 136,313
Depreciation and capitalized software	1,570	—
Amortization	12,644	6,357
Deferred compensation	9,553	9,193
Revaluation of equity investments	9,356	10,390
Inventory	2,761	2,735
Accrued liabilities and reserves	2,444	5,887
Interest	5,161	5,161
Other	<u>7,807</u>	<u>7,337</u>
	176,928	183,373
Valuation allowance	<u>(87,997)</u>	<u>(167,501)</u>
Deferred tax asset, net of valuation allowance	88,931	15,872
Deferred tax liabilities:		
Depreciation and capitalized software	(7,290)	(8,469)
Amortization	(1,625)	(1,625)
Deferred compensation	(3,590)	—
Indefinite lived intangibles	(13,381)	(8,766)
Other	<u>(47)</u>	<u>(3,283)</u>
	<u>(25,933)</u>	<u>(22,143)</u>
Net deferred tax assets (liabilities)	<u>\$ 62,998</u>	<u>\$ (6,271)</u>

Statement of Financial Accounting Standard SFAS No. 109, "Accounting for Income Taxes", requires that a Company evaluate the necessity of establishing or increasing a valuation allowance for deferred tax assets depending on whether it is more likely than not that a related benefit will be recognized in future periods. At December 31, 2004, the Company determined that it was more likely than not that the \$167.5 million of deferred tax benefit would not be realized, therefore, a valuation allowance had reduced this deferred tax benefit to zero. Included in the \$167.5 million of total valuation allowance, at December 31, 2004, was \$154.9 million relating to U.S. assets. The valuation allowance against the U.S. deferred tax assets would be maintained until an appropriate level of taxable income in the U.S. could be sustained. To the extent the deferred tax assets relate to stock option deductions, the resultant benefits, if and when realized, will be credited to additional paid-in capital.

In 2005, the Company reversed approximately \$92.5 million of its valuation allowance on its deferred tax assets with a credit of \$78.8 million to additional paid-in capital and the remainder to goodwill in the consolidated balance sheet. The Company believes an appropriate level of profitability had been established and believes that it is more likely than not that the deferred tax assets will be realized in the future. The Company made this determination based on a review of the facts and circumstances at this time.

Net deferred tax assets include \$13.0 million and \$4.1 million in other current assets and \$50.0 million and zero in other assets at December 31, 2005 and 2004, respectively. Net deferred tax liabilities included in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

other current liabilities totaled zero and \$10.4 million at December 31, 2005, and 2004, respectively. The deferred tax liabilities relate primarily to the U.S.

The Company's deferred tax benefit of net operating losses and credits is broken out as follows: \$45.5 million (\$123.0 million pre-tax) in U.S. federal and state operating loss carryforwards that begin to expire in 2020 and 2006, respectively; \$63.6 million in foreign tax credits, which begin to expire in 2009; \$6.5 million in research and development credits that begin to expire in 2009; and \$10.0 million (\$36.5 million pre-tax) in foreign net operating losses with expiration dates ranging from 2006 to unlimited.

The Company has provided a valuation allowance of \$88.0 million principally against foreign tax credits (\$63.6 million), certain foreign net operating losses, deferred interest and other deferred tax assets. The benefit relating to foreign tax credits and other deferred tax assets, if and when realized, will be credited to additional paid-in capital.

The income tax benefits associated with non-qualified stock option compensation expense recognized for tax purposes and credited to additional paid-in capital were \$4.9 million, \$32.0 million and \$17.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

At December 31, 2005, there were unremitted earnings of foreign subsidiaries of approximately \$304.4 million. The Company has not provided for U.S. income taxes or foreign withholding taxes on these earnings as it is the Company's current intention to permanently reinvest the earnings outside the U.S.

In October 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA creates a temporary incentive for U.S. multi-national corporations to repatriate accumulated income abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. It previously had been the Company's practice to permanently reinvest all foreign earnings into foreign operations. In July 2005, the Board of Directors of the Company approved the repatriation of \$500.0 million as a qualified distribution in accordance with the AJCA. The Company will use the repatriated cash to fund current and future operating expenses within the parameters of Internal Revenue Service guidance. During the third quarter of 2005, the Company recorded a tax liability of \$24.0 million for the federal, state and foreign taxes related to the qualified and base period distribution in accordance with SFAS No. 109. The Company made \$10.0 million in tax payments during 2005 and the Company expects to make a tax payment of approximately \$9.0 million during the first quarter of 2006. The remaining \$5.0 million of this tax liability was offset by the tax benefit of a net operating loss carryforward ("NOL"), which was credited to additional paid-in capital in the third quarter of 2005. The tax benefit of the NOL was previously reserved for as a valuation allowance in additional paid-in capital since the NOL was originally associated with non-qualified stock option compensation expense recognized for tax purposes. The tax benefit became realizable as a result of the repatriation in the third quarter of 2005, and accordingly, income taxes payable was reduced and additional paid-in capital was credited for \$5.0 million.

The Company's effective tax rate for the years ended December 31, 2005, 2004 and 2003 were 26.4%, 21.6% and 23.6%, respectively. The effective tax rate for 2005 includes the \$24.0 million provision made under the AJCA. Without this provision, the Company's effective tax rate for 2005 would have been 17.7%. The Company's effective tax rate has benefited primarily from the preferential tax rate of 10% afforded its Irish operations. The Irish rate will increase to 12.5% in 2011. The effect of the Irish operation is a benefit of approximately \$49.4 million or \$0.43 per diluted share for the year ended December 31, 2005.

12 Patent Litigation

Applera Corporation:

PE Corporation (since renamed Applera Corporation), MDS, Inc. and Applied Biosystems/ MDS Sciex ("the Plaintiffs") filed a civil action against Micromass UK Limited and Micromass, Inc., wholly owned subsidiaries of the Company, in the U.S. District Court for the District of Delaware (the "Court") on

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

February 18, 2000. The Plaintiffs alleged that the Quattro Ultima triple quadrupole mass spectrometer infringes U.S. Patent No. 4,963,736 (“the patent”). The patent is owned by MDS, Inc. and licensed to a joint venture with Applied Biosystems/ MDS Sciex Instruments.

In March 2002, the Company was informed of a jury’s finding that the Quattro Ultima with Mass Transit ion tunnel technology infringes the patent. The same jury found that the infringement was not willful and determined damages in the amount of \$47.5 million. The Court entered an injunction in which the Company is enjoined from making, using and selling in the U.S. the Quattro Ultima triple quadrupole mass spectrometer incorporating features of the patent.

In March 2003, the Court’s decision was affirmed on appeal. In April 2003, the Company paid total damages and interest of approximately \$53.7 million to the Plaintiffs. These instruments are manufactured in the United Kingdom and shipments to the rest of the world outside the United States were not subject to this litigation. Similar claims were asserted against the Company by the Plaintiffs in Japan and Canada. Also, in 2003, the Company reversed approximately \$0.9 million of interest as a one-time credit to interest expense.

Previously, in July 2002, the Company filed a civil action against Applera Corporation alleging patent infringement of U.S. Patent No. 5,304,798 owned by the Company. In November 2002, the University of Manitoba (the “University”) and Applera Corporation, its licensee, filed a civil action against the Company alleging patent infringement of U.S. Patent No. 6,331,702 owned by the University.

On October 31, 2003, MDS, Inc. and Applied Biosystems/ MDS Sciex Instruments filed a civil action against Micromass UK Limited, Waters Limited, wholly-owned subsidiaries of the Company, and the Company, in the High Court of Justice, Chancery Division, Patents Courts, UK. The case alleged that certain of the Company’s MS products infringe European Patent (UK) No. 0 373 835 (the “European Patent”). To the Company’s knowledge, the European Patent is owned by MDS, Inc. and licensed to a joint venture with Applied Biosystems/ MDS Sciex Instruments. The Plaintiffs in this action were seeking an injunction against the Company to restrain it from infringing the European Patent and an unspecified award of damages.

On March 2, 2004, the Company and MDS, Inc., through its Applied Biosystems/ MDS Sciex Instruments partnership, and Applied Biosystems entered into a settlement agreement (the “Applera Settlement Agreement”) with respect to the various civil actions pending against each of them, both in the United States and internationally. Stipulations of Dismissal or their foreign equivalents (the “Stipulations”) with respect to the disposal of all such actions have been entered in the applicable courts and tribunals in each of the United States, the United Kingdom, Canada and Japan.

The Applera Settlement Agreement provides for the resolution of all patent infringement claims in the United States made by certain of the parties against the other and of international cases brought by MDS, Inc. and Applied Biosystems/ MDS Sciex Instruments against the Company with respect to alleged infringements of those parties’ patents at issue in the United Kingdom, Canada and Japan.

In consideration of entering into the Applera Settlement Agreement and the Stipulations, the Company and MDS, Inc. and Applied Biosystems/ MDS Sciex Instruments have entered into royalty paying license agreements, cross licensing the use of the technology described in the parties’ respective patents at issue. In addition, the Company made a one-time payment to Applied Biosystems/ MDS Sciex Instruments of \$18.1 million on March 11, 2004.

The accrued patent litigation expenses in the consolidated balance sheets as of December 31, 2005 and December 31, 2004 were zero and \$0.1 million, respectively. The change in the liability from December 31, 2004 is attributed to the payment of legal fees directly associated with these cases. There were no charges in the statements of operations for the years ended December 31, 2005, 2004 and 2003 related to these cases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)*Hewlett-Packard Company:*

The Company filed suit in the United States against Hewlett-Packard Company and Hewlett-Packard GmbH (collectively, “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”). The action in the United States was dismissed for lack of controversy. Actions seeking revocation or nullification of foreign HP patents were filed by the Company in Germany, France and England. A German patent tribunal found the HP German patent to be valid. In Germany, France and England, HP and its successor, Agilent Technologies Deutschland GmbH (“Agilent”), have brought an action alleging that certain features of the Alliance pump may infringe the HP patents. In England, the Court of Appeal found the HP patent valid and infringed. The Company’s petitions for leave to appeal to the House of Lords were denied. A trial on damages was scheduled for November 2004. In March 2004, Agilent Technologies GmbH brought a new action against the Company alleging that certain features of the Alliance pump continue to infringe the HP patents. At a hearing held in the UK in June, 2004, the UK court postponed the previously scheduled November 2004 damages trial until March 2005. Instead, the court scheduled the trial in the new action for November 2004. In December 2004, following a trial in the new action, the UK court ruled that the Company did not infringe the HP patents. Agilent filed an appeal in that action, which was heard in July 2005, and the UK Appellate Court upheld the lower court’s ruling of non-infringement. The damages trial scheduled for March 2005 was postponed pending this appeal and rescheduled for December, 2005. In December, 2005, a trial on damages commenced in the first action and continued for six days prior to a holiday recess. In February, 2006, the Company, HP and Agilent entered into a settlement agreement (the “Agilent Settlement Agreement”) with respect to the first action and a Consent Order dismissing the case was entered. The Agilent Settlement Agreement provides for the release of the Company and its UK affiliate from each and every claim under Agilent’s European patent (UK) number 309,596 arising out of the prior sale by either of them of Alliance Separations Modules incorporating the patented technology. In consideration of entering into the Agilent Settlement Agreement and the Consent Order, the Company made a payment to Agilent of 3.5 million British Pounds, in full and final settlement of Agilent’s claim for damages and in relation to all claims for costs and interest in the case. In France, the Paris District Court has found the HP patent valid and infringed by the Alliance pump. The Company appealed the French decision and in April, 2004, the French appeals court affirmed the Paris District Court’s finding of infringement. The Company has filed a further appeal in the case. In the German case, a German court has found the patent infringed. The Company appealed the German decision, and in December 2004, the German appeals court reversed the trial court and issued a finding of non-infringement in favor of the Company. Agilent is seeking an appeal in that action and in July 2005 brought a new action against the Company alleging that certain features of the Alliance pump continue to infringe the HP patents. This case is currently pending.

The Company recorded a provision of \$3.1 million during 2005 for damages and fees to be incurred with respect to the litigation, which was settled in February 2006. The Company recorded a provision of \$7.8 million in the first quarter of 2004 for estimated damages and fees to be incurred with respect to the ongoing litigation for the England and France suits. No provision has been made for the Germany suit and the Company believes the outcome, if the plaintiff ultimately prevails, will not have a material impact on the Company’s financial position. The accrued patent litigation expense in the consolidated balance sheets at December 31, 2005 and December 31, 2004 was \$5.3 million and \$4.5 million, respectively, for the England and France suits. The change in the liability through December 31, 2005 is attributable to the provision discussed above and payments of legal fees directly associated with the cases.

Perkin-Elmer Corporation:

The Company, through its subsidiary TA, asserted a claim against The Perkin-Elmer Corporation (“PE”) alleging patent infringement of three patents owned by TA (the “TAI patents”). PE counterclaimed for infringement of a patent owned by PE (the “PE patent”). The U.S. District Court for the District of Delaware granted judgment as a matter of law in favor of TA and enjoined PE from infringing the TAI patents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

PE appealed the District Court judgment in favor of TA to the federal appellate court. The District Court's judgment, with respect to PE's infringement of the TAI patents, was affirmed. The District Court's judgment with respect to TA's non-infringement of the PE patent was reversed and remanded to the District Court for further proceedings.

On remand to the District Court in October 2002, a jury found PE liable to TA for damages of \$13.3 million and found TA did not infringe the PE patent. In May 2003, the District Court entered judgment on the jury's verdict in favor of the Company. PE has appealed the judgment with respect to TA's non-infringement of the PE patent. A hearing on the matter was held on May 4, 2004. On May 5, 2004, the United States Court of Appeals for the Federal Circuit affirmed the judgment of non-infringement of the PE Patent. On May 11, 2004, PE, now known as Applera Corporation, paid the Company \$17.4 million, including \$0.2 million in post-judgment interest which has been classified as interest income in the consolidated statements of operations. Approximately \$0.1 million in legal fees were incurred and were offset against the recording of settlement proceeds.

13 Environmental Contingency

In July 2003, the Company entered into a settlement agreement (the "Environmental Settlement Agreement") with the Commonwealth of Massachusetts, acting by and through the Attorney General and the Department of Environmental Protection, with respect to alleged non-compliance with state environmental laws at its Taunton, Massachusetts facility. Pursuant to the terms of a final judgment entered in the Superior Court of the Commonwealth on July 10, 2003, the Company paid a civil penalty of \$5.9 million. In addition, the Company agreed to conduct a Supplemental Environmental Project in the amount of \$0.6 million, comprised of investments in capital infrastructure, to study the effects of bio-filtration on certain air emissions from the Taunton facility and for the purchase of equipment in connection therewith. As of December 31, 2005, the Company had fulfilled its obligations with respect to the Supplemental Environmental Project. Pursuant to the terms of the Environmental Settlement Agreement, the Company also agreed to undertake a variety of actions to ensure that air emissions from the facility do not exceed certain limits and that the facility is brought into full compliance with all applicable environmental regulations.

14 Restructuring and Other Charges

2006 Restructuring:

In early February 2006, the Company began implementing a cost reduction plan, primarily affecting operations in the U.S. and Europe that resulted in the employment of approximately 70 employees being terminated with effective dates through third quarter of 2006. In addition, the Company plans to close a sales and demonstration office in the Netherlands in the third quarter of 2006. The Company is implementing this cost reduction plan primarily to realign its operating costs with business opportunities around the world. The Company expects to incur a one-time estimated restructuring charge in 2006 in the range of \$5.0 million to \$7.0 million. The Company expects the entire restructuring plan to be completed by the third quarter of 2006.

2004 Restructuring:

In January 2004, the Company initiated a small restructuring effort to realign its personnel between various support functions and field sales and service organizations around the world. As a result, 70 employees were to be terminated, all of whom had left the Company as of December 31, 2004. The provision of \$2.1 million, recorded during the year ended December 31, 2004, represents costs incurred, including severance costs, for the 70 people and other directly related incremental costs of this realignment effort. The Company's 2004 restructuring liability was zero at December 31, 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)*2002 Restructuring:*

In July 2002, the Company took action to restructure and combine its field sales, service and distribution of its Micromass and LC operations. The objective of this integration is to leverage the strengths of both divisions and align and reduce operating expenses. The integration efforts impacted the U.S., Canada, continental Europe and the United Kingdom. Approximately 55 employees were terminated, of whom all had left the Company as of December 31, 2004. In addition, the Company originally committed to closing four sales and distribution facilities, two of which were closed by December 31, 2004.

The Company recorded \$2.6 million and \$7.4 million of charges for the year ended December 31, 2003 and 2002, respectively, for restructuring and other directly related incremental charges relating to its integration of the worldwide LC and MS sales, service and support organizations. The charge for the year ended December 31, 2003 includes severance costs for 13 people, distributor termination costs and other directly related incremental costs of this integration effort.

During the year ended December 31, 2004, the Company reversed approximately \$2.2 million in restructuring reserves, primarily attributable to a change in plans with respect to two facilities previously selected for closure and distributor contract settlements being less than previously estimated. During the year ended December 31, 2003, the Company reversed approximately \$1.9 million in restructuring reserves, primarily attributable to facility closure and distributor termination costs being less than previously estimated and the retention of certain employees previously selected for termination.

The Company's 2002 integration restructuring liability was zero at December 31, 2005 and 2004.

The Company also recorded an unrelated restructuring provision of \$0.1 million at its TA subsidiary for severance and other related costs in the year ended December 31, 2003. There were no such charges for the years ended December 31, 2005 and 2004.

15 Other Commitments and Contingencies

Lease agreements, expiring at various dates through 2022, cover buildings, office equipment and automobiles. Rental expense was \$23.2 million, \$19.7 million and \$19.6 million during the years ended December 31, 2005, 2004 and 2003, respectively. Future minimum rents payable as of December 31, 2005 under non-cancelable leases with initial terms exceeding one year are as follows (in thousands):

2006	\$	19,497
2007		15,859
2008		13,349
2009		10,275
2010 and thereafter		33,917

The Company licenses certain technology and software from third parties, which expire at various dates through 2008. Fees paid for licenses were approximately \$0.8 million, \$1.1 million and \$2.9 million during the years ended December 31, 2005, 2004 and 2003, respectively. Future minimum licenses payable under existing license agreements as of December 31, 2005 will be immaterial for the years ended December 31, 2006 and thereafter.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of business. The Company believes it has meritorious arguments in its current litigation matters and any outcome, either individually or in the aggregate, with the exception of the current litigation described in Note 12, will not be material to the financial position or results of operations.

The Company enters into standard indemnification agreements in its ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to its current products, as well as claims relating to property damage or personal injury resulting from the performance of services by the Company or its subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Historically, the Company's costs to defend lawsuits or settle claims relating to such indemnity agreements have been minimal and management accordingly believes the estimated fair value of these agreements is immaterial.

16 Stock Option and Purchase Plans*Stock Option Plans*

On November 20, 2003, the Company's shareholders approved the 2003 Equity Incentive Plan ("2003 Plan"). The 2003 Plan replaced the Company's three preceding plans, under all of which 5,697 shares remained available for granting in the form of incentive or non-qualified stock options, SARs, restricted stock or other types of awards. Under the 2003 Plan, the exercise price for stock options may not be less than the fair market value of the underlying stock at the date of grant. The 2003 Plan is scheduled to terminate on March 4, 2013. Options generally will expire no later than 10 years after the date on which they are granted and will become exercisable as directed by the Compensation Committee of the Board of Directors. A SAR may be granted alone or in conjunction with an option or other award. Shares of restricted stock shall be issued under the 2003 Plan for such consideration as is determined by the Compensation Committee of the Board of Directors. No award of restricted stock shall have a restriction period of less than three years except as may be recommended by the Compensation Committee of the Board of Directors, or with respect to any award of restricted stock which provides solely for a performance-based risk of forfeiture so long as such award has a restriction period of at least one year. Except for stock options and restricted stock, no SARs or other types of awards were outstanding as of December 31, 2005.

The following table details the weighted average remaining contractual life of options outstanding at December 31, 2005 by range of exercise prices (in thousands, except per share data):

<u>Exercise Price Range</u>	<u>Number of Shares Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life of Options Outstanding</u>	<u>Number of Shares Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$ 5.01 to \$10.00	257	\$ 8.57	0.4	257	\$ 8.57
\$10.01 to \$15.00	575	\$ 10.69	1.9	575	\$ 10.69
\$15.01 to \$20.00	803	\$ 19.68	2.9	803	\$ 19.68
\$20.01 to \$30.00	2,239	\$ 22.25	5.7	1,584	\$ 22.49
\$30.01 to \$40.00	3,906	\$ 34.71	7.4	1,894	\$ 34.85
\$40.01 to \$80.97	3,159	\$ 56.46	7.3	1,597	\$ 65.51
	<u>10,939</u>	\$ 35.47	6.2	<u>6,710</u>	\$ 34.34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	<u>Number of Shares</u>	<u>Price per Share</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2002	17,327	\$1.02 to \$80.97	\$ 19.68
Granted	2,104	\$21.05 to \$32.12	\$ 31.60
Exercised	(4,431)	\$1.02 to \$23.06	\$ 5.78
Canceled	<u>(462)</u>	\$19.69 to \$72.06	\$ 41.69
Outstanding at December 31, 2003	14,538	\$1.02 to \$80.97	\$ 24.93
Granted	1,975	\$33.12 to \$47.12	\$ 46.79
Exercised	(4,585)	\$2.38 to \$36.25	\$ 9.34
Canceled	<u>(606)</u>	\$21.39 to \$72.06	\$ 43.39
Outstanding at December 31, 2004	11,322	\$1.02 to \$80.97	\$ 34.07
Granted	551	\$37.84 to \$48.85	\$ 39.51
Exercised	(824)	\$1.02 to \$36.25	\$ 17.14
Canceled	<u>(110)</u>	\$21.39 to \$72.06	\$ 48.90
Outstanding at December 31, 2005	<u>10,939</u>	\$8.55 to \$80.97	\$ 35.47

Options exercisable at December 31, 2005, 2004 and 2003 were 6.7 million, 6.1 million and 9.1 million, respectively. The weighted average exercise prices of options exercisable at December 31, 2005, 2004 and 2003 were \$34.34, \$31.98 and \$19.48, respectively.

During both 2005 and 2004, the Company granted seven thousand shares of restricted stock. The restrictions on these shares lapse January 30, 2008 and 2007, respectively. The Company has recorded \$0.2 million and \$0.1 million of compensation expense during 2005 and 2004, respectively, related to the restricted stock grants. The weighted-average fair value on the grant date of the restricted stock for 2005 and 2004 was \$45.77 and \$33.12, respectively.

Shares available for grant under the 2003 Plan at December 31, 2005 were 6.0 million.

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 1.0 million shares of the Company's Common Stock commencing October 1, 1996. As of December 31, 2005, 686 thousand 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17 Earnings per Share

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

	Year Ended December 31, 2005		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Net income per basic common share	\$ 201,975	114,023	\$ 1.77
Effect of dilutive securities:			
Options outstanding		1,831	
Options exercised and cancellations		91	
Net income per diluted common share	\$ 201,975	115,945	\$ 1.74

	Year Ended December 31, 2004		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Net income per basic common share	\$ 224,053	119,640	\$ 1.87
Effect of dilutive securities:			
Options outstanding		2,192	
Options exercised and cancellations		1,237	
Net income per diluted common share	\$ 224,053	123,069	\$ 1.82

	Year Ended December 31, 2003		
	<u>Net Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
Net income per basic common share	\$ 170,891	123,189	\$ 1.39
Effect of dilutive securities:			
Options outstanding		2,993	
Options exercised and cancellations		1,397	
Net income per diluted common share	\$ 170,891	127,579	\$ 1.34

For the years ended December 31, 2005, 2004 and 2003, the Company had 3.2 million, 3.2 million and 5.5 million stock option securities that were antidilutive, respectively, due to having higher exercise prices than the average price during the period. These securities were not included in the computation of diluted EPS. The effect of dilutive securities was calculated using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

18 Comprehensive Income

Comprehensive income details follow (in thousands):

	Year Ended December 31		
	2005	2004	2003
Net income	\$ 201,975	\$ 224,053	\$ 170,891
Foreign currency translation	(44,383)	27,413	46,010
Net appreciation (depreciation) and realized gains (losses) on derivative instruments	11,894	(14,371)	(10,289)
Income tax (benefit)	4,163	(5,030)	(3,601)
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	7,731	(9,341)	(6,688)
Net foreign currency adjustments	(36,652)	18,072	39,322
Minimum pension liability adjustment	(1,021)	427	116
Unrealized gains (losses) on investments before income taxes	(2,214)	(191)	2,351
Income tax (benefit)	(775)	(67)	823
Unrealized gains (losses) on investments, net of tax	(1,439)	(124)	1,528
Other comprehensive income	(39,112)	18,375	40,966
Comprehensive income	\$ 162,863	\$ 242,428	\$ 211,857

19 Retirement Plans*U.S. Retirement Plans*

The Company has two retirement plans for U.S. employees: the Waters Employee Investment Plan, a defined contribution plan, and the Waters Retirement Plan, a defined benefit cash balance plan.

U.S. employees are eligible to participate in the Waters Employee Investment Plan after one month of service. Employees may contribute from 1% to 30% of eligible pay on a pre-tax basis. After one year of service, the Company makes a matching contribution of 50% for contributions up to 6% of eligible pay. Employees are 100% vested in employee and Company matching contributions. For the years ended December 31, 2005, 2004 and 2003, the Company's matching contributions amount to \$3.4 million, \$3.1 million and \$2.9 million, respectively.

U.S. employees are eligible to participate in the Waters Retirement Plan after one year of service. Annually, the Company credits 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.

The net periodic pension cost under SFAS 87, "Employers' Accounting for Pensions", is made up of several components that reflect different aspects of the Company's financial arrangements as well as the cost of benefits earned by employees. These components are determined using the projected unit credit actuarial cost method and are based on certain actuarial assumptions. The Company's accounting policy is to reflect in the projected benefit obligation all benefit changes to which the Company is committed as of the current valuation date; use a market-related value of assets to determine pension expense; amortize increases in prior service costs on a straight-line basis over the expected future service of active participants as of the date such costs are first recognized; and amortize cumulative actuarial gains and losses in excess of 10% of the larger of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the market-related value of plan assets and the projected benefit obligation over the expected future service of active participants.

Summary data for the Waters Retirement Plan are presented in the following tables, using the measurement date of December 31, 2005 (in thousands):

Reconciliation of Projected Benefit Obligation	2005	2004
Benefit obligation, January 1	\$ 68,017	\$ 55,974
Service cost	6,673	5,800
Interest cost	3,810	3,406
Employee rollovers	466	517
Actuarial loss	2,014	3,251
Disbursements	(2,356)	(931)
Benefit obligation, December 31	<u>\$ 78,624</u>	<u>\$ 68,017</u>

Reconciliation of Fair Value of Assets	2005	2004
Fair value of assets, January 1	\$ 51,715	\$ 37,295
Actual return (loss) on plan assets	4,670	4,834
Company contributions	6,308	10,000
Disbursements	(2,356)	(931)
Employee rollovers	466	517
Fair value of assets, December 31	<u>\$ 60,803</u>	<u>\$ 51,715</u>

Reconciliation of Funded Status, December 31	2005	2004
Projected benefit obligation	\$ (78,624)	\$ (68,017)
Fair value of plan assets	60,803	51,715
Projected benefit obligation in excess of fair value of plan assets	(17,821)	(16,302)
Unrecognized prior service cost	(632)	(731)
Unrecognized net actuarial loss	21,784	21,232
Net amount recognized at December 31	<u>\$ 3,331</u>	<u>\$ 4,199</u>
Accrued liability	\$ (11,015)	\$ (9,126)
Other comprehensive income (Note 18)	14,346	13,325
Net amount recognized at December 31	<u>\$ 3,331</u>	<u>\$ 4,199</u>

Components of Net Periodic Pension Cost, Year Ended December 31	2005	2004	2003
Service cost	\$ 6,673	\$ 5,800	\$ 4,339
Interest cost	3,810	3,406	3,231
Return on plan assets	(4,142)	(3,389)	(2,829)
Net amortization:			
Prior service cost	(99)	(99)	(99)
Net actuarial loss	934	903	394
Net periodic pension cost	<u>\$ 7,176</u>	<u>\$ 6,621</u>	<u>\$ 5,036</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>Reconciliation of Accrued Pension Cost</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accrued pension cost, January 1	\$ (9,126)	\$ (12,932)	\$ (15,090)
FAS 87 cost	(7,176)	(6,621)	(5,036)
Company contributions made during the year	6,308	10,000	7,078
Other comprehensive income (Note 18)	(1,021)	427	116
Accrued pension cost, December 31	<u>\$ (11,015)</u>	<u>\$ (9,126)</u>	<u>\$ (12,932)</u>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Waters Retirement Plan were approximately \$78.6 million, \$71.8 million and \$60.8 million, respectively, at December 31, 2005 and \$68.0 million, \$60.8 million and \$51.7 million, respectively, at December 31, 2004.

The Company also sponsors other unfunded employee benefit plans in the U.S., including a post-retirement health care plan, which provides reimbursement for medical expenses and is contributory. The Company's accrued post-retirement benefit obligation for this plan was \$3.3 million and \$3.1 million at December 31, 2005 and 2004 respectively, and is included in long-term portion of retirement benefits in the consolidated balance sheets.

The Company also maintains an unfunded Supplemental Executive Retirement Plan ("SERP"), which is nonqualified and restores the benefits under the Waters Retirement Plan that are limited by IRS benefit and compensation maximums. The Company's accrued post-retirement benefit obligation for this plan was \$2.7 million and \$2.4 million at December 31, 2005 and 2004, respectively, and is included in long-term portion of retirement benefits in the consolidated balance sheets. Also included in the long-term portion of retirement benefits is \$15.1 million and \$12.8 million at December 31, 2005 and 2004, respectively, relating to the liability associated with the SERP plan.

<u>Asset Disclosure, December 31</u>	<u>2005</u>	<u>2004</u>
Equity securities	65%	67%
Debt securities	29%	32%
Cash and cash equivalents	2%	1%
Other	4%	0%
Total	<u>100%</u>	<u>100%</u>

The retirement plan's investment policy includes the following asset allocation guidelines:

<u>Asset Class, December 31, 2005</u>	<u>Policy Target</u>	<u>Range</u>
Equity securities	60%	40% — 80%
Debt securities	40%	20% — 60%
Cash and cash equivalents	0%	0% — 20%

The asset allocation policy was developed in consideration of the following long-term investment objectives: achieving a return on assets consistent with the investment policy, maximizing portfolio returns with at least a return of 2.5% above the one-year Treasury Bill rate, and achieving portfolio returns which exceeds the average return for similarly invested funds.

The Company increased its allocation to debt securities during 2003 from 26% to 32% based on the new target allocation. The increase in fixed income securities will help better match the interest rate sensitivity of the pension liabilities and limit the risk associated with equity funds. Within the equity portfolio, investments are diversified among capitalization and style. Up to 20% of the equity portfolio may be invested in financial markets outside of the United States. The Company does not invest in its own stock within the pension assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company prohibits the following types of assets or transactions: short selling, margin transactions, commodities and future contracts, private placements, options and letter stock.

Weighted-Average Assumptions for Benefit Obligations, December 31	2005	2004	2003
Discount rate	5.50%	5.75%	6.00%
Increases in compensation levels	4.75%	4.75%	4.75%

Weighted-Average Assumptions for Expense Calculation, December 31	2005	2004	2003
Discount rate	5.75%	6.00%	6.75%
Return on assets	8.00%	8.00%	8.00%
Increases in compensation levels	4.75%	4.75%	4.75%

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio and historical expenses paid by the plan. This resulted in the selection of the 8.00% long-term rate of return on assets assumption, net of expenses paid by the plan. A one-quarter percentage point increase in the discount rate would decrease the Company's net periodic benefit cost for the U.S. pension plan by approximately \$0.4 million. A one-quarter percentage point change in the assumed long-term rate of return would impact the Company's net periodic benefit cost for the U.S. pension plan by approximately \$0.1 million.

During fiscal year 2006, the Company expects to contribute approximately \$9.0 million to \$11.0 million to the Plan.

Estimated future benefit payments as of December 31, 2005 are as follows (in thousands):

2006	\$	3,068
2007		3,229
2008		3,632
2009		3,930
2010		5,155
2011 - 2015		31,516

Non-U.S. Retirement Plans

The Company sponsors various non-U.S. retirement plans. Summary data for these plans are presented in the following tables, using the measurement date of December 31, 2005 (in thousands):

Reconciliation of Projected Benefit Obligation	2005	2004
Benefit obligation, January 1	\$ 20,463	\$ 17,102
Service cost	1,177	1,046
Interest cost	722	651
Actuarial loss	598	1,269
Disbursements	(598)	(814)
Currency impact	(2,587)	1,209
Benefit obligation, December 31	<u>\$ 19,775</u>	<u>\$ 20,463</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation of Fair Value of Assets	2005	2004
Fair value of assets, January 1	\$ 8,740	\$ 7,014
Actual return (loss) on plan assets	837	754
Company contributions	920	1,257
Disbursements	(598)	(814)
Currency impact	(1,021)	529
Fair value of assets, December 31	\$ 8,878	\$ 8,740

Reconciliation of Funded Status, December 31	2005	2004
Projected benefit obligation	\$ (19,775)	\$ (20,463)
Fair value of plan assets	8,878	8,740
Projected benefit obligation in excess of fair value of plan assets	(10,897)	(11,723)
Unrecognized net actuarial loss	2,682	2,840
Net amount recognized at December 31	\$ (8,215)	\$ (8,883)
Prepaid cost	\$ 1,998	\$ 2,033
Accrued liability	(10,213)	(10,916)
Net amount recognized at December 31	\$ (8,215)	\$ (8,883)

Components of Net Periodic Pension Cost, Year Ended December 31	2005	2004	2003
Service cost	\$ 1,177	\$ 1,046	\$ 920
Interest cost	722	651	538
Return on plan assets	(490)	(432)	(339)
Net actuarial loss	53	13	16
Net periodic pension cost	\$ 1,462	\$ 1,278	\$ 1,135

Reconciliation of Accrued Pension Cost	2005	2004	2003
Accrued pension cost, January 1	\$ (8,883)	\$ (8,394)	\$ (6,894)
FAS 87 cost	(1,462)	(1,278)	(1,135)
Company contributions and direct payments to beneficiaries	920	1,257	829
Currency impact	1,210	(468)	(1,194)
Accrued pension cost, December 31	\$ (8,215)	\$ (8,883)	\$ (8,394)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the non-U.S. retirement plans were approximately \$19.8 million, \$15.4 million and \$8.9 million, respectively, at December 31, 2005 and \$20.5 million, \$15.9 million and \$8.7 million, respectively, at December 31, 2004.

Asset Disclosure, December 31	2005	2004
Equity securities	0%	57%
Debt securities	2%	6%
Real estate	0%	1%
Cash and other	98%	36%
Total	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Asset Class, December 31	Policy Target
Equity securities	0%
Debt securities	2%
Real estate	0%
Cash and other	98%
Total	100%

Weighted-Average Assumptions for Benefit Obligations, December 31	2005	2004	2003
Discount rate	2.25% - 4.75%	2.25% - 5.25%	2.00% - 5.50%
Increases in compensation levels	2.75% - 3.25%	2.75% - 3.00%	2.50% - 3.00%

Weighted-Average Assumptions for Expense Calculation, December 31	2005	2004	2003
Discount rate	2.25% - 5.25%	2.00% - 5.50%	2.25% - 5.75%
Return on assets	2.50% - 7.50%	2.50% - 7.50%	2.50% - 7.50%
Increases in compensation levels	2.75% - 3.00%	2.50% - 3.00%	2.50% - 3.00%

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio and historical expenses paid by the plans.

During fiscal year 2006, the Company expects to contribute approximately \$1.0 million to the non-U.S. retirement plans.

Estimated future benefit payments as of December 31, 2005 are as follows (in thousands):

2006	\$ 897
2007	1,018
2008	333
2009	650
2010	716
2011 - 2015	4,040

20 Business Segment Information

SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports of public business enterprises. It also establishes standards for related disclosures about products and service, geographic areas and major customers. The Company's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision-makers.

In the third quarter of fiscal year 2003, the Company completed the integration of the LC and MS worldwide sales, service and support organizations. Accordingly, the Micromass operating segment has been integrated into the Waters operating segment.

Waters Division is in the business of manufacturing and distributing LC instruments, columns, other consumables and mass spectrometry instruments that can be integrated and used along with other analytical instruments. TA Division is in the business of manufacturing and distributing thermal analysis and rheometry instruments. The Company's two divisions are its operating segments, which have similar economic characteristics, product processes, products and services, types and classes of customers, methods of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

distribution, and regulatory environments. Because of these similarities, the two segments have been aggregated into one reporting segment for financial statement purposes. Please refer to the consolidated financial statements for financial information regarding the one reportable segment of the Company.

Geographic information is presented below (in thousands):

Year Ended December 31	2005	2004	2003
Net Sales:			
United States	\$ 404,750	\$ 398,077	\$ 359,450
Europe	349,433	340,635	298,869
Japan	133,521	123,493	102,503
Asia	152,906	141,007	109,516
Other International	117,626	101,324	87,867
Total consolidated sales	\$ 1,158,236	\$ 1,104,536	\$ 958,205

The United States category includes Puerto Rico. The Other category includes Canada, Latin America, and Eastern Europe. Net revenues are attributable to geographic areas based on the region of destination. None of the Company's individual customers account for more than 3% of annual Company sales.

Long-lived assets information is presented below (in thousands):

December 31	2005	2004
Long-lived assets:		
United States	\$ 107,639	\$ 105,231
Europe	29,149	26,943
Japan	527	798
Asia	2,196	1,473
Other International	1,519	1,463
Total long-lived assets	\$ 141,030	\$ 135,908

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21 Unaudited Quarterly Results

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

<u>2005</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Net sales	\$ 268,305	\$ 284,630	\$ 273,031	\$ 332,270	\$ 1,158,236
Cost of sales	<u>111,801</u>	<u>117,066</u>	<u>115,508</u>	<u>133,980</u>	<u>478,355</u>
Gross Profit	156,504	167,564	157,523	198,290	679,881
Selling and administrative expenses	80,595	82,861	76,645	81,593	321,694
Research and development expenses	16,747	16,485	16,982	16,691	66,905
Purchased intangibles amortization	1,282	1,266	1,241	1,216	5,005
Litigation provisions (Note 12)	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,122</u>	<u>3,122</u>
Operating Income	57,880	66,952	62,655	95,668	283,155
Other income (expense), net (Note 5)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,103)</u>	<u>(3,103)</u>
Interest expense	(4,159)	(5,753)	(6,599)	(8,233)	(24,744)
Interest income	<u>4,523</u>	<u>5,290</u>	<u>4,630</u>	<u>4,812</u>	<u>19,255</u>
Income from operations before income taxes	58,244	66,489	60,686	89,144	274,563
Provision for income taxes (Note 11)	<u>11,649</u>	<u>12,424</u>	<u>34,969</u>	<u>13,546</u>	<u>72,588</u>
Net Income	<u>\$ 46,595</u>	<u>\$ 54,065</u>	<u>\$ 25,717</u>	<u>\$ 75,598</u>	<u>\$ 201,975</u>
Net income per basic common share	\$ 0.39	\$ 0.47	\$ 0.23	\$ 0.70	\$ 1.77
Weighted average number of basic common shares	<u>118,719</u>	<u>116,092</u>	<u>112,981</u>	<u>108,364</u>	<u>114,023</u>
Net income per diluted common share	\$ 0.38	\$ 0.46	\$ 0.22	\$ 0.69	\$ 1.74
Weighted average number of diluted common shares and equivalents	<u>121,156</u>	<u>117,722</u>	<u>114,942</u>	<u>109,962</u>	<u>115,945</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 255,086	\$ 260,488	\$ 264,808	\$ 324,154	\$ 1,104,536
Cost of sales	107,474	106,180	111,009	130,144	454,807
Gross Profit	147,612	154,308	153,799	194,010	649,729
Selling and administrative expenses	71,427	75,840	71,967	80,916	300,150
Research and development expenses	16,071	15,694	17,001	16,475	65,241
Purchased intangibles amortization	1,354	996	1,228	1,236	4,814
Litigation settlement and provisions (Note 12)	7,847	(17,124)	—	—	(9,277)
Impairment of long-lived intangible asset (Note 9)	—	—	—	3,997	3,997
Restructuring and other charges, net (Note 14)	104	—	(158)	—	(54)
Operating Income	50,809	78,902	63,761	91,386	284,858
Other expense, net (Note 5)	—	—	—	(1,014)	(1,014)
Interest expense	(1,873)	(1,891)	(2,564)	(3,746)	(10,074)
Interest income	2,104	2,886	3,009	3,902	11,901
Income from operations before income taxes	51,040	79,897	64,206	90,528	285,671
Provision for income taxes	10,195	20,146	12,266	19,011	61,618
Net Income	\$ 40,845	\$ 59,751	\$ 51,940	\$ 71,517	\$ 224,053
Net income per basic common share	\$ 0.34	\$ 0.50	\$ 0.43	\$ 0.59	\$ 1.87
Weighted average number of basic common shares	120,180	118,691	119,519	120,266	119,640
Net income per diluted common share	\$ 0.33	\$ 0.49	\$ 0.42	\$ 0.58	\$ 1.82
Weighted average number of diluted common shares and equivalents	123,987	122,820	122,597	122,679	123,069

The Company experiences a seasonal increase in sales in the fourth quarter, as a result of purchasing habits on capital goods of customers that tend to exhaust their spending budgets by calendar year-end. Selling and administrative expenses were relatively constant in 2005 as the Company instituted expense controls due to first half sales performance being less than expected. Selling and administrative expenses are typically higher in the second quarter over the first quarter in each year as the Company's annual payroll merit increases take effect. Expenses traditionally are lower in the third quarter due to lower travel and promotional expenses as this is a typical vacation period. Quarterly comparative selling and administrative expenses declined throughout 2005 over 2004 due to the impact of foreign currency translation, expense controls implemented in the second half of 2005 and lower costs related to compensation incentive plans based on 2005 performance.

SELECTED FINANCIAL DATA

	<u>2005(3)</u>	<u>2004</u>	<u>2003</u>	<u>2002*</u>	<u>2001</u>
In thousands, except per share and employees data					
STATEMENT OF OPERATIONS DATA:					
Net sales	\$ 1,158,236	\$ 1,104,536	\$ 958,205	\$ 889,967	\$ 859,208
Income from operations before income taxes	\$ 274,563	\$ 285,671	\$ 223,686	\$ 195,411	\$ 147,426
Income before cumulative effect of changes in accounting principles	\$ 201,975	\$ 224,053	\$ 170,891	\$ 152,218	\$ 114,543
Cumulative effect of changes in accounting principles	—	—	—	(4,506) (1)	—
Net income	<u>\$ 201,975</u>	<u>\$ 224,053</u>	<u>\$ 170,891</u>	<u>\$ 147,712</u>	<u>\$ 114,543</u>
Income per basic common share					
Income before cumulative effect of changes in accounting principles per basic common share	\$ 1.77	\$ 1.87	\$ 1.39	\$ 1.17	\$ 0.88
Cumulative effect of changes in accounting principles	—	—	—	(0.03)	—
Net income per basic common share	\$ 1.77	\$ 1.87	\$ 1.39	\$ 1.13	\$ 0.88
Weighted average number of basic common shares	114,023	119,640	123,189	130,489	130,559
Income per diluted common share					
Income before cumulative effect of changes in accounting principles per diluted common share	\$ 1.74	\$ 1.82	\$ 1.34	\$ 1.12	\$ 0.83
Cumulative effect of changes in accounting principles	—	—	—	(0.03)	—
Net income per diluted common share	\$ 1.74	\$ 1.82	\$ 1.34	\$ 1.09	\$ 0.83
Weighted average number of diluted common shares and equivalents	115,945	123,069	127,579	135,762	137,509
BALANCE SHEET AND OTHER DATA:					
Cash and cash equivalents	\$ 493,588	\$ 539,077	\$ 356,781	\$ 263,312	\$ 226,798
Working capital	\$ 309,101	\$ 480,894	\$ 339,835	\$ 338,233	\$ 241,738
Total assets	\$ 1,428,931	\$ 1,460,426	\$ 1,130,861	\$ 1,015,240	\$ 886,911
Long-term debt, including current maturities	\$ 500,000	\$ 250,000	\$ 225,000	\$ —	\$ —
Stockholders' equity	\$ 283,632	\$ 678,686	\$ 590,477	\$ 665,310	\$ 581,745
Employees	4,503	4,271	3,963	3,677	3,561

* As a result of the adoption of Statement of Financial Accounting Standards 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized commencing January 1, 2002. Goodwill amortization expense was approximately \$3.6 million for the year ended December 31, 2001.

- (1) In the second quarter of 2002, the Company changed its method of accounting for legal costs associated with litigating patents effective January 1, 2002. As a result, the Company recorded a cumulative effect of changes in accounting principles of \$4.5 million, net of tax.
- (2) The Company has not declared or paid any dividends on its Common Stock in its past three fiscal years and does not plan to pay dividends in the foreseeable future.
- (3) As a result of the anticipated adoption in 2006 of Statement of Financial Accounting Standards No. 123R, "Share Based Payment", compensation expense related to unvested stock options will be recognized beginning in fiscal year 2006 and will adversely effect the Company's results of operations.

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

None.

Item 9a: *Controls and Procedures*

(a) *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) *Management's Annual Report on Internal Control Over Financial Reporting*

See Management's Report on Internal Control Over Financial Reporting in Item 8 on page 36.

(c) *Report of the Independent Registered Public Accounting Firm*

See report of PricewaterhouseCoopers LLP on pages 37 and 38.

(d) *Changes in Internal Controls Over Financial Reporting*

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9b: *Other Information*

None.

PART III

Item 10: *Directors and Executive Officers of the Registrant*

a. Information concerning the Registrant's directors (including with respect to the audit committee of the Company's Board of Directors) is set forth in the Proxy Statement under the headings "Election of Directors," "Directors Meetings and Compensation" and "Report of the Audit Committee of the Board of Directors." 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 "Section 16(A) Beneficial Ownership Reporting Compliance." Such information is incorporated herein by reference.

c. The Company has adopted a Code of Business Conduct and Ethics ("the Code") that applies to all of the Company's employees (including its executive officers) and directors. The Code has been distributed to all employees of the Company. In addition, the Code is available on the Company's website, www.waters.com, under the caption About Waters > Corporate Information > Corporate Governance. The Company intends to satisfy the disclosure requirement regarding any amendment to, or waiver of a provision of, the Code

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applicable to any executive officer or director by posting such information on such website. The Company shall provide to any person without charge, upon request, a copy of the Code. Any such request must be made in writing to the Secretary of the Company, c/o Waters Corporation, 34 Maple Street, Milford, MA 01757.

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

e. The Company's Chief Executive Officer has certified that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards.

Item 11: Executive Compensation

The information called for by this Item is incorporated by reference to the information under the caption "Management Compensation" appearing in the Proxy Statement.

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

Except for the Equity Compensation Plan information set forth below, 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.

Equity Compensation Plan Information

The following table provides information as of December 31, 2005 about the Company's common stock that may be issued upon the exercise of options, warrants, and rights under its existing equity compensation plans (in thousands):

	<u>A</u>		<u>B</u>		<u>C</u>
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	10,940	\$	35.47		6,032
Equity compensation plans not approved by security holders	—		—		310
Total	<u>10,940</u>	<u>\$</u>	<u>35.47</u>		<u>6,342</u>

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.

Item 14: Principal Accountant Fees and Services

Information concerning certain relationships and related transactions is set forth in the Proxy Statement under the heading "Report of the Audit Committee of the Board of Directors." Such information is incorporated herein by reference.

PART IV**Item 15: Exhibits And financial Statement Schedules**

(a) Documents filed as part of this report:

(1) Financial Statements:

The consolidated financial statements of the Company and its subsidiaries are filed as part of this Form 10-K and are set forth on pages 39 to 80. The report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, dated March 6, 2006, is set forth on pages 37 and 38 of this Form 10-K.

(2) Financial Statement Schedule:

None.

(3) Exhibits:

<u>Exhibit Number</u>	<u>Description of Document</u>
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.(18)
3.1	Second Amended and Restated Certificate of Incorporation of Waters Corporation.(1)
3.11	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, as amended May 12, 1999.(3)
3.12	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, as amended July 27, 2000.(6)
3.13	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of Waters Corporation, as amended May 25, 2001.(8)
3.2	Amended and Restated Bylaws of Waters Corporation, as amended to date.(1)
10.3	Waters Corporation Second Amended and Restated 1996 Long-Term Performance Incentive Plan.(5)(*)
10.31	First Amendment to the Waters Corporation Second Amended and Restated 1996 Long-Term Performance Incentive Plan. (10)(*)
10.4	Waters Corporation 1996 Employee Stock Purchase Plan.(9)(*)
10.41	December 1999 Amendment to the Waters Corporation 1996 Employee Stock Purchase Plan.(4)(*)
10.42	March 2000 Amendment to the Waters Corporation 1996 Employee Stock Purchase Plan.(4)(*)
10.43	June 1999 Amendment to the Waters Corporation 1996 Employee Stock Purchase Plan.(7)(*)
10.44	July 2000 Amendment to the Waters Corporation 1996 Employee Stock Purchase Plan.(7)(*)
10.5	Waters Corporation 1996 Non-Employee Director Deferred Compensation Plan. (13)(*)
10.51	First Amendment to the Waters Corporation 1996 Non-Employee Director Deferred Compensation Plan.(5)(*)
10.6	Waters Corporation Amended and Restated 1996 Non-Employee Director Stock Option Plan.(5)(*)
10.7	Agreement and Plan of Merger among Waters Corporation, TA Merger Sub, Inc. and TA Instruments, Inc. dated as of March 28, 1996.(19)
10.8	Offer to Purchase and Consent Solicitation Statement, dated March 7, 1996, of Waters Technologies Corporation. (20)
10.9	WCD Investors, Inc. Amended and Restated 1994 Stock Option Plan (including Form of Amended and Restated Stock Option Agreement).(2)(*)

10.91 Amendment to the WCD Investors, Inc. Amended and Restated 1994 Stock Option Plan.(5)(*)

10.10 Waters Corporation Retirement Plan.(2)(*)

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<u>Exhibit Number</u>	<u>Description of Document</u>
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)(*)
10.14	1999 Management Incentive Plan.(3)(*)
10.15	Rights Agreement, dated as of August 9, 2002 between Waters Corporation and EquiServe Trust Company, N.A. as Rights Agent.(11)
10.17	First Amendment to the Waters Corporation 2003 Equity Incentive Plan. (14)(*)
10.19	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and Mark T. Beaudouin. (15)(*)
10.20	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and Douglas A. Berthiaume. (15)(*)
10.21	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and Arthur G. Caputo. (15)(*)
10.22	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and William J. Curry. (15)(*)
10.23	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and Brian K. Mazar. (15)(*)
10.25	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and John Ornell. (15)(*)
10.26	Credit Agreement, dated as of May 28, 2004 among Waters Corporation and Citizens Bank of Massachusetts.(16)
10.27	Form of Director Stock Option Agreement under the Waters Corporation Amended 2003 Equity Incentive Plan. (17)(*)
10.28	Form of Director Restricted Stock Agreement under the Waters Corporation Amended 2003 Equity Incentive Plan. (17)(*)
10.29	Form of Executive Officer Stock Option Agreement under the Waters Corporation Amended 2003 Equity Incentive Plan. (17)(*)
10.30	Five Year Credit Agreement, dated as of December 15, 2004 among Waters Corporation, Waters Technologies Ireland Ltd., Waters Chromatography Ireland Ltd., JP Morgan Chase Bank, N.A. and other Lenders party thereto. (21)
10.32	Form of Amendment to Stock Option Agreement under the Waters Corporation Second Amended and Restated 1996 Long Term Performance Incentive Plan (21).(*)
10.33	Stock Option Agreement, dated as of December 8, 2004 between Waters Corporation and Brian K. Mazar. (21)(*)
10.34	Waters Corporation 2003 Equity Incentive Plan. (12)(*)
10.35	Form of Executive Officer Stock Option Agreement under the Waters Corporation Second Amended and Restated 1996 Long-Term Performance Incentive Plan. (21)(*)

- 10.36 2005 Waters Corporation Amended and Restated Management Incentive Plan(21)(*)
- 10.37 Amendment to Rights Agreement, dated as of March 4, 2005, between Waters Corporation and The Bank of New York as Rights Agent. (22)
- 10.38 Second Amendment to the Waters Corporation 2003 Equity Incentive Plan.(23)(*)
- 10.39 Five Year Credit Agreement, dated as of November 28, 2005 among Waters Corporation, JP Morgan Chase Bank, N.A. and other Lenders party thereto.
- 10.40 First Amendment dated as of October 12, 2005, to the Five Year Credit Agreement, dated as of December 15, 2004.

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.45	Change of Control/ Severance Agreement, dated as of February 24, 2004 between Waters Corporation and Elizabeth B. Rae.(*)
21.1	Subsidiaries of Waters Corporation.
23.1	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm.
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to the Registrant's Report on Form 10-K dated March 29, 1996.
 - (2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-3810).
 - (3) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 11, 1999.
 - (4) Incorporated by reference to the Registrant's Report on Form 10-K dated March 30, 2000.
 - (5) Incorporated by reference to the Registrant's Report on Form 10-Q dated May 8, 2000.
 - (6) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 8, 2000.
 - (7) Incorporated by reference to the Registrant's Report on Form 10-K dated March 27, 2001.
 - (8) Incorporated by reference to the Registrant's Report on Form 10-K dated March 28, 2002.
 - (9) Incorporated by reference to Exhibit B of the Registrant's 1996 Proxy Statement.
 - (10) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 12, 2002.
 - (11) Incorporated by reference to the Registrant's Report on Form 8-A dated August 27, 2002.
 - (12) Incorporated by reference to the Registrant's Report on Form S-8 dated November 20, 2003.
 - (13) Incorporated by reference to Exhibit C of the Registrant's 1996 Proxy Statement.
 - (14) Incorporated by reference to the Registrant's Report on Form 10-K dated March 12, 2004.
 - (15) Incorporated by reference to the Registrant's Report on Form 10-Q dated May 10, 2004.
 - (16) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 11, 2004.
 - (17) Incorporated by reference to the Registrant's Report on Form 10-Q dated November 10, 2004.
 - (18) Incorporated by reference to the Registrant's Report on Form 8-K, filed on October 8, 1997 and amended on December 5, 1997.
 - (19) Incorporated by reference to the Registrant's Report on Form 8-K dated March 29, 1996.
 - (20) Incorporated by reference to the Registrant's Report on Form 8-K dated March 11, 1996
 - (21) Incorporated by reference to the Registrant's Report on Form 10-K dated March 15, 2005.
 - (22) Incorporated by reference to the Registrant's Report on Form 10-Q dated May 6, 2005.
 - (23) Incorporated by reference to the Registrant's Report on Form 10-Q dated August 5, 2005.
- (*) Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.
- (b) See Item 15 (a) (3) above.
 - (c) Not Applicable.

SIGNATURES AND CERTIFICATIONS

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

WATERS CORPORATION

/s/ JOHN ORNELL

John Ornell
*Vice President, Finance
and Administration and Chief Financial Officer*

Date: March 6, 2006

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 6, 2006.

<u>/s/ DOUGLAS A. BERTHIAUME</u> Douglas A. Berthiaume	Chairman of the Board of Directors, President and Chief Executive Officer (principal executive officer)
<u>/s/ JOHN ORNELL</u> John Ornell	Vice President, Finance and Administration and Chief Financial Officer (principal financial officer and principal accounting officer)
<u>/s/ JOSHUA BEKENSTEIN</u> Joshua Bekenstein	Director
<u>/s/ DR. MICHAEL J. BERENDT</u> Dr. Michael J. Berendt	Director
<u>/s/ EDWARD CONARD</u> Edward Conard	Director
<u>/s/ DR. LAURIE H. GLIMCHER</u> Dr. Laurie H. Glimcher	Director
<u>/s/ WILLIAM J. MILLER</u> William J. Miller	Director
<u>/s/ THOMAS P. SALICE</u> Thomas P. Salice	Director

FIVE YEAR CREDIT AGREEMENT

dated as of

November 28, 2005

among

WATERS CORPORATION

The Lenders Party Hereto

and

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

ABN AMRO INCORPORATED,
as Syndication AgentJ.P. MORGAN SECURITIES INC. and ABN AMRO INCORPORATED,
as Joint Lead Arrangers
and Joint Bookrunners

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[CS&M #6701-450]

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- Schedule 2.01 -- Lenders and Commitments
- Schedule 2.15 -- Payment Instructions
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EXHIBITS:

- Exhibit A -- Form of Assignment and Assumption
- Exhibit B -- Form of Subsidiary Guarantee Agreement
- Exhibit C-1 -- Form of Opinion of Bingham McCutchen LLP, Counsel for the
Company
- Exhibit C-2 -- Form of Opinion of Mark T. Beaudouin, Vice President, General
Counsel and Secretary of the Company

FIVE YEAR CREDIT AGREEMENT dated as of November 28, 2005
among WATERS CORPORATION, a Delaware corporation (the "Company");
the LENDERS from time to time party hereto; and JPMORGAN CHASE
BANK, N.A., as Administrative Agent.

The Company has requested the Lenders (such term and each other capitalized term used and not otherwise defined herein having the meaning assigned to it in Article I) to extend credit in the form of Loans to the Company in US Dollars in an aggregate principal amount of \$250,000,000. The proceeds of borrowings are to be used for general corporate purposes of the Company and its subsidiaries, including repurchases of equity securities of the Company and payment of fees and expenses in connection with the credit facility established hereby.

The Lenders are willing to establish the credit facility referred to in the preceding paragraph upon the terms and subject to the conditions set forth herein. Accordingly, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Adjusted LIBO Rate" means, with respect to any Eurocurrency Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective

Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Rate" means, with respect to any Loan of any Type:

(a) For any day on which either or both of Moody's and S&P shall not have a Rating in effect, the applicable rate per annum set forth under the appropriate caption in the table below, based upon the Leverage Ratio as of the most recent determination date:

CATEGORY	LEVERAGE RATIO	LIBOR SPREAD (BASIS POINTS PER ANNUM)	ABR SPREAD (BASIS POINTS PER ANNUM)
Category 1	< 1.00	37.5	0.0
Category 2	> or = 1.00 and < 1.50	50.0	0.0
Category 3	> or = 1.50 and < 2.00	62.5	0.0
Category 4	> or = 2.00 and < 2.50	75.0	0.0
Category 5	> or = 2.50 and < 3.00	97.5	0.0
Category 6	> or = 3.00	112.5	0.0

The Leverage Ratio used on any date to determine the Applicable Rate shall be that in effect at the end of the most recent fiscal quarter for which financial statements shall have been delivered pursuant to Section 5.06(a) or (b); provided that if any financial statements required to have been delivered under Section 5.06(a) or (b) shall not at any time have been delivered, the Applicable Rate shall, until such financial statements shall have been delivered, be determined by reference to Category 6 in the Table above.

(b) For any day on which each of Moody's and S&P shall have a Rating in effect, the applicable rate per annum set forth under the appropriate caption in the table below, based upon the Ratings in effect on such day:

CATEGORY	LEVERAGE RATIO	LIBOR SPREAD (BASIS POINTS PER ANNUM)	ABR SPREAD (BASIS POINTS PER ANNUM)
Category 1	A3/A- or higher	37.5	0.0
Category 2	Baa1/BBB+	50.0	0.0
Category 3	Baa2/BBB	62.5	0.0
Category 4	Baa3/BBB-	75.0	0.0
Category 5	Ba1/BB+	97.5	0.0
Category 6	Ba2/BB or lower	112.5	0.0

In the event of split Ratings, the Applicable Rate will be based on the higher Rating unless the Ratings differ by two or more categories, in which case the Applicable Rate will be based upon the category one level above the category corresponding to the lower Rating.

"Assignment and Assumption" means an Assignment and Assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Attributable Debt" means, in connection with any Sale and Leaseback Transaction, the present value (discounted in accordance with GAAP at the discount rate implied in the lease) of the obligations of the lessee for rental payments during the term of the lease.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrowing" means Loans of the same Type and currency, made, converted or continued on the same date and, in the case of Eurocurrency Loans, as to which a single Interest Period is in effect.

"Borrowing Minimum" means \$5,000,000.

"Borrowing Multiple" means \$1,000,000.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided, that when used in connection with a Eurocurrency Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in deposits in the London interbank market.

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"Change of Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of shares representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Company; or (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Company by Persons who were not (i) directors of the Company on the date hereof, (ii) nominated by the board of directors of the Company or (iii) appointed by directors so nominated.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or by any lending office of such Lender or by such Lender's holding company with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Loans pursuant to Section 2.01, as such commitment may be (a) increased pursuant to Section 2.07 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The aggregate amount of the Commitments on the date hereof is \$250,000,000.

"Company" has the meaning assigned to such term in the heading of this Agreement.

"Confidential Information Memorandum" means the Confidential Information Memorandum dated October, 2005 distributed to the Lenders, together with the appendices thereto, as amended through the date hereof.

"Consolidated Debt" means all Debt of the Company and the Subsidiaries, determined on a consolidated basis.

"Consolidated EBITDA" means, for any period, the consolidated net income (loss) of the Company and the Subsidiaries for such period plus, to the extent deducted in computing such consolidated net income for such period, the sum (without duplication) of (a) Consolidated Interest Expense, (b) consolidated income tax expense, (c) depreciation and amortization expense, (d) stock-based employee compensation expense related to any grant of stock options or restricted stock to the extent deducted from such consolidated net income for such period pursuant to Statement of Financial Accounting Standards 123 (revised 2004) and (e) extraordinary or non-recurring non-cash expenses or losses, minus, to the extent added in computing such consolidated net income for such period, extraordinary gains, all determined on a consolidated basis.

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"Consolidated Interest Expense" means, for any period, the interest expense of the Company and the consolidated Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, but excluding

deferred financing fees.

"Consolidated Net Tangible Assets" means the total amount of assets that would be included on a consolidated balance sheet of the Company and the consolidated Subsidiaries (and which shall reflect the deduction of applicable reserves) after deducting therefrom all current liabilities of the Company and the consolidated Subsidiaries and all Intangible Assets.

"Consolidated Total Assets" means the total amount of assets that would be included on a consolidated balance sheet of the Company and the consolidated Subsidiaries.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Debt" means, with respect to any Person and without duplication, all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, all accrued or contingent obligations in respect of letters of credit, all capitalized lease obligations, all indebtedness of others secured by assets of the Company or a Subsidiary, all guarantees of Debt of others (but excluding guarantees issued for customer advance payments) and all obligations under Hedging Agreements.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Domestic Subsidiary" means any Subsidiary that is incorporated under the laws of the United States or its territories or possessions.

"Environmental Laws" means all federal, state, local and foreign laws, rules and regulations relating to the release, emission, disposal, storage and related handling of waste materials, pollutants and hazardous substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excluded Taxes" means, with respect to any Lender, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of

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America (or any political subdivision thereof), or by the jurisdiction under which such recipient is organized or in which its principal office or any lending office from which it makes Loans hereunder is located, (b) any branch profit taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction described in clause (a) above, (c) any withholding tax that is imposed by the United States of America (or any political subdivision thereof) on payments by the Company from an office within such jurisdiction to the extent such tax is in effect and would apply as of the date such Lender becomes a party to this Agreement or relates to payments received by a new lending office designated by such Lender and is in effect and would apply at the time such lending office is designated, or (d) any withholding tax that is attributable to such Lender's failure to comply with Section 2.14(e), except, in the case of clause (c) above, to the extent that (i) such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Company with respect to such withholding tax pursuant to Section 2.14 or (ii) such withholding tax shall have resulted from the making of any payment to a location other than the office designated by the Administrative Agent or such Lender for the receipt of payments of the applicable type from the Company.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so

published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Foreign Subsidiary" means any Subsidiary that is not incorporated under the laws of the United States or its territories or possessions.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government.

"Guarantee Requirement" means, at any time, that the Subsidiary Guarantee Agreement (or a supplement referred to in Section 16 thereof) shall have been executed by each Subsidiary (other than any Foreign Subsidiary or a subsidiary of a Foreign Subsidiary) existing at such time, shall have been delivered to the Administrative Agent and shall be in full force and effect; provided, however, that in the case of a Subsidiary that becomes subject to the Guarantee Requirement after the date hereof, the Guarantee Requirement shall be satisfied with respect to such Subsidiary if a supplement to the Subsidiary Guarantee Agreement is executed by such Subsidiary, delivered to the Administrative Agent and is in full force and effect no later than (i) fifteen days after the

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date on which such Subsidiary becomes subject to the Guarantee Requirement or (ii) such other date as the Administrative Agent may reasonably determine, but in any case no later than thirty days after the date on which such Subsidiary becomes subject to the Guarantee Requirement.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement or other interest or currency exchange rate hedging arrangement. The "principal amount" of the obligations of any Person in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Person would be required to pay if such Hedging Agreement were terminated at such time.

"Incremental Facility Amendment" has the meaning set forth in Section 2.07.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Intangible Assets" means all assets of the Company and the consolidated Subsidiaries that would be treated as intangibles in conformity with GAAP on a consolidated balance sheet of the Company and the consolidated Subsidiaries.

"Interest Coverage Ratio" means, for any period, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

"Interest Election Request" means a request by the Company to convert or continue a Borrowing in accordance with Section 2.05.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last day of each March, June, September and December and (b) with respect to any Eurocurrency Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurocurrency Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means, with respect to any Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter (or, if available from each applicable Lender, nine or twelve months thereafter), as the Company may elect; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or

on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially

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shall be the date on which such Borrowing is made, and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"JPMCB" means JPMorgan Chase Bank, N.A. and its successors.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption or as provided in Section 2.07, other than any such Person that shall have ceased to be a party hereto pursuant to an Assignment and Assumption.

"Leverage Ratio" means, at any time, the ratio of (a) Consolidated Debt at such time to (b) Consolidated EBITDA for the most recent period of four consecutive fiscal quarters of the Company ended at or prior to such time; provided, that in the event any Material Acquisition shall have been completed during such period of four consecutive fiscal quarters, the Leverage Ratio shall be computed giving pro forma effect to such Material Acquisition as if it had been completed at the beginning of such period.

"LIBO Rate" means, with respect to any Eurocurrency Borrowing for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m., London time, on the Quotation Day for such Interest Period by reference to the British Bankers' Association Interest Settlement Rates for deposits in the currency of such Borrowing (as reflected on the applicable Telerate screen), for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, "LIBO Rate" shall mean the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in the currency of such Borrowing are offered for such Interest Period to major banks in the London interbank market by JPMCB at approximately 11:00 a.m., London time, on the Quotation Day for such Interest Period.

"Lien" means, with respect to any asset, any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset.

"Loan Documents" means this Agreement, the Subsidiary Guarantee Agreement and each promissory note delivered pursuant to this Agreement.

"Loan Parties" means the Company and the Subsidiary Guarantors.

"Loans" means the loans made by the Lenders to the Company pursuant to this Agreement.

"Margin Stock" has the meaning ascribed to such term in Regulation U issued by the Board.

"Material Acquisition" means (i) the acquisition by the Company or a Subsidiary of assets of or an interest in another Person or (ii) the merger or consolidation of the Company with another corporation, in each case if the Consolidated Total Assets of the Company after giving effect to such acquisition, merger or consolidation are at

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least 5% greater than the Consolidated Total Assets of the Company immediately prior to such acquisition, merger or consolidation.

"Material Adverse Effect" means a (i) a material adverse effect on the business, assets, operations or financial condition of the Company and the Subsidiaries, taken as a whole or (ii) a material adverse effect on the validity or enforceability of any of the Loan Documents.

"Material Debt" means Consolidated Debt in an aggregate principal amount of \$20,000,000 or more.

"Material Subsidiary" means each Subsidiary of the Company, other than

Subsidiaries designated by the Company from time to time that in the aggregate do not account for more than 15% of the consolidated revenues of the Company and its Subsidiaries for the period of four fiscal quarters most recently ended or more than 15% of the consolidated assets of the Company and its Subsidiaries at the end of such period.

"Maturity Date" means November 28, 2010.

"Moody's" means Moody's Investors Service, Inc.

"Obligations" means (a) the due and punctual payment of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans made to the Company, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Loan Parties under this Agreement and the other Loan Documents, and (b) the due and punctual payment and performance of all obligations of the Company or any Subsidiary, monetary or otherwise, under each interest rate hedging agreement relating to Obligations referred to in the preceding clause (a) entered into with any counterparty that was a Lender (or an Affiliate thereof) at the time such hedging agreement was entered into.

"Other Taxes" means any and all present or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMCB as its prime rate in effect at its principal office in New York

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City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Quotation Day" means, with respect to any Eurocurrency Borrowing and any Interest Period, the day on which it is market practice in the relevant interbank market for prime banks to give quotations for deposits in the currency of such Borrowing for delivery on the first day of such Interest Period. If such quotations would normally be given by prime banks on more than one day, the Quotation Day will be the last of such days.

"Ratings" means published debt ratings issued by each of Moody's and S&P with respect to the Company's senior, unsecured, non-credit enhanced long-term indebtedness for borrowed money (each a "Rating").

"Register" has the meaning set forth in Section 9.04(c).

"Related Fund" means, with respect to any Lender that is a fund that invests in bank loans, any other fund that invests in bank loans and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, trustees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having aggregate Loans (or, prior to the borrowing hereunder on the date hereof, Commitments) representing more than 50% of the aggregate principal amount of the Loans (or, prior to the borrowing hereunder on the date hereof, the aggregate Commitments) at such time.

"S&P" means Standard & Poor's Ratings Service.

"Sale and Leaseback Transaction" means any arrangement whereby the

Company or a Subsidiary, directly or indirectly, shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal to which the Administrative Agent is subject, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board of Governors of the Federal Reserve System of the United States of America). Such reserve percentages include, but are not limited to, those imposed pursuant to such Regulation D. Eurocurrency Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable

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regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"subsidiary" means, with respect to any Person, any entity with respect to which such Person alone owns, such Person or one or more of its subsidiaries together own, or such Person and any Person Controlling such Person together own, in each case directly or indirectly, capital stock or other equity interests having ordinary voting power to elect a majority of the members of the Board of Directors of such corporation or other entity or having a majority interest in the capital or profits of such corporation or other entity.

"Subsidiary" means any subsidiary of the Company.

"Subsidiary Guarantee Agreement" means a Subsidiary Guarantee Agreement substantially in the form of Exhibit B, and all supplements thereto made by the Subsidiary Guarantors in favor of the Administrative Agent for the benefit of the Lenders.

"Subsidiary Guarantors" means each Person listed on Schedule 1.01 and each other Person that becomes party to a Subsidiary Guarantee Agreement as a Subsidiary Guarantor, and the permitted successors and assigns of each such Person.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Transactions" means the execution, delivery and performance by the Loan Parties of the Loan Documents, the borrowing of Loans and the use of the proceeds of such Loans.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Unfunded Liabilities" means, in the case of a single employer pension benefit plan which is covered by Title IV of ERISA, the amount, if any, by which the present value of all vested benefits accrued to the date of determination under such plan exceeds the fair market value of all assets of such plan allocable to such benefits as of such date, and, in the case of a multiemployer pension plan, the withdrawal liability of the Company and the Subsidiaries.

"USA PATRIOT Act" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001.

"US Corporation" means a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia.

"US Dollars" or "\$" means the lawful money of the United States of America.

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SECTION 1.02. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder" and words of similar import shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.03. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP as in effect from time to time; provided that if the Company notifies the Administrative Agent that the Company requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Company that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make a Loan to the Company on the date hereof in US Dollars in a principal amount equal to its Commitment.

SECTION 2.02. Loans and Borrowings. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required hereunder.

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(b) Subject to Section 2.11, each Borrowing shall be comprised entirely of Eurocurrency Loans or ABR Loans as the Company may request in accordance herewith. Each Borrowing made on the date hereof shall be comprised of Eurocurrency Loans with an initial Interest Period of one month. Each Lender at its option may make any Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan (and in the case of an Affiliate, the provisions of Sections 2.11, 2.12, 2.13 and 2.14 shall apply to such Affiliate to the same extent as to such Lender); provided that any exercise of such option shall not affect the obligation of the Company to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Borrowing, such Borrowing shall be in an aggregate amount that is at least equal to the Borrowing Minimum and an integral multiple of the Borrowing Multiple. Borrowings of more than one Type may be outstanding at the same time; provided that there shall not at any time be more than a total of four Eurocurrency Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Company shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the date hereof by wire transfer of immediately available funds by 11:00 a.m., New York City time, to the account of the Administrative Agent designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Company by promptly crediting the amounts so received, in like funds, to an account of the Company in New York City or Boston.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Company a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Company severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Company to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the rate reasonably determined by the Administrative Agent to be the cost to it of funding such amount or (ii) in the case of the Company, the interest rate applicable to the subject Loan. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing and the Administrative Agent shall return to the Company any amount (including interest) paid by the Company to the Administrative Agent pursuant to this paragraph.

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SECTION 2.04. Repayment of Borrowings; Evidence of Debt. (a) The Company hereby unconditionally promises to pay to the Administrative Agent for the accounts of the applicable Lenders the then unpaid principal amount of each Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Company to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Type and currency thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Company to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the accounts of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Company to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it to the Company be evidenced by a promissory note. In such event, the Company shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by each such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.05. Interest Elections. (a) Each Borrowing initially shall be of the Type specified in Section 2.02 and shall have an initial Interest Period as specified in Section 2.02. Thereafter, the Company may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurocurrency Borrowing, may elect Interest Periods therefor, all as provided in this Section and on terms consistent with the other provisions of this Agreement. The Company may elect different options with respect to different portions of an affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Company shall notify the Administrative Agent of such election by telephone (a) in the case of a

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Eurocurrency Borrowing, not later than 12:00 noon, New York City time, three Business Days before the effective date of such election, and (b) in the case of an ABR Borrowing, not later than 12:00 noon, New York City time, one Business Day before the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Company. Notwithstanding any contrary provision herein, this Section shall not be construed to permit the Company to (i) change the currency of any Borrowing or (ii) elect an Interest Period for Eurocurrency Loans that does not comply with Section 2.02(d).

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) the Type of the resulting Borrowing; and

(iv) if the resulting Borrowing is to be a Eurocurrency Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurocurrency Borrowing but does not specify an Interest Period, then the Company shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender holding a Loan to which such request relates of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Company fails to deliver a timely Interest Election Request with respect to a Eurocurrency Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period, such Borrowing shall be converted to an ABR Borrowing.

SECTION 2.06. Termination of Commitments. The Commitments shall terminate upon the borrowing of the Loans on the date hereof.

SECTION 2.07. Incremental Term Loans. (a) The Company may, at any time prior to the Maturity Date, subject to the terms and conditions set forth herein, by notice to the Administrative Agent (which shall promptly deliver a copy to each Lender),

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request additional term loans (each, an "Incremental Term Loan") from one or more lenders, which may include any existing Lender (each, an "Incremental Term Lender"); provided that the aggregate principal amount of the Incremental Term Loans made pursuant to this Section shall in no event exceed \$100,000,000 (the "Incremental Term Loan Amount"). The making of any Incremental Term Loans shall be within the sole discretion of each Lender hereunder and shall require the express consent of each Lender making such Loans, and each Incremental Term Lender, if not already a Lender hereunder, shall be subject to the approval of the Administrative Agent and the Company (which approvals shall not be unreasonably withheld) and shall become a Lender under this Agreement pursuant to an Incremental Facility Amendment as set forth in paragraph (c) below. The

Incremental Term Loans made on any date (i) shall rank pari passu in right of payment under this Agreement and the Subsidiary Guarantee Agreement with the initial Loans, (ii) shall be in a multiple of \$5,000,000 and a minimum amount of \$50,000,000 (or in an amount equal to the remaining Incremental Term Loan Amount), (iii) shall have a final maturity no earlier than the Maturity Date, (iv) shall have a weighted average life no shorter than that of the initial Loans and (v) other than terms relating to maturity, amortization and pricing, shall have the same terms (including rights with respect to voluntary and mandatory prepayments) as the initial Loans.

(b) Any notice requesting Incremental Term Loans shall set forth (A) the amount of the Incremental Term Loans being requested and (B) the date on which such Incremental Term Loans are to be made (which shall be not less than 10 days nor more than 60 days after the date of such notice).

(c) The Company, the Administrative Agent and each Person that agrees to become a Incremental Term Lender shall enter into an amendment (an "Incremental Facility Amendment") effecting such amendments to this Agreement and the other Loan Documents as shall be necessary or appropriate, in the reasonable judgment of the Administrative Agent, in connection with the Incremental Term Loans (which amendments may, among other things, provide that the Incremental Term Loans made on any date shall constitute a separate tranche of Loans and make such changes as the Administrative Agent shall deem advisable to accommodate multiple tranches of Loans), and such amendment shall become effective in accordance with its terms and the terms of this Section without the approval of any other Person. The effectiveness of each Incremental Facility Amendment and the making of Incremental Term Loans pursuant thereto shall be subject to the satisfaction on the date of such Incremental Facility Amendment of the conditions set forth in paragraphs (g) and (h) of Article IV and the receipt by the Administrative Agent of a certificate dated such date and signed by the chief financial officer of the Company confirming the satisfaction of such conditions, as well as to the satisfaction of such of the other conditions set forth in Article IV (appropriately modified, and including delivery of documents consistent with those delivered on the date hereof under paragraphs (b) and (c) of Article IV as to the corporate power and authority of the Company to borrow such Incremental Term Loans) as the Administrative Agent shall reasonably determine to be appropriate. The Administrative Agent shall promptly notify each Lender as to the effectiveness of each Incremental Facility Amendment. Each of the parties hereto hereby agrees that, upon the

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effectiveness of any Incremental Facility Amendment, each such Incremental Term Lender shall, to the extent not an existing Lender, become a Lender hereunder.

SECTION 2.08. Prepayment of Loans. (a) The Company shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (c) of this Section.

(b) Prior to any prepayment of Borrowings hereunder, the Company shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (c) of this Section.

(c) The Company shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment of a Borrowing hereunder not later than 11:00 a.m., New York City time, three Business Days before the date of such prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid. Promptly following receipt of any such notice, the Administrative Agent shall advise the applicable Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by (i) accrued interest to the extent required by Section 2.10 and (ii) break funding payments pursuant to Section 2.13.

SECTION 2.09. Fees. The Company agrees to pay to the Administrative Agent, for its own account and in immediately available funds, fees payable in the amounts and at the times separately agreed upon between the Company and the Administrative Agent. Fees paid hereunder shall not be refundable.

SECTION 2.10. Interest. (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurocurrency Borrowing shall bear

interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee payable by the Company hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% per annum plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) above.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; provided that (i) interest accrued pursuant to paragraph (c) above shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall

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be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurocurrency Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.11. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by a majority in interest of the Lenders that would participate in such Borrowing that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Company and the applicable Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Company and the applicable Lenders that the circumstances giving rise to such notice no longer exist, any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurocurrency Borrowing shall be ineffective, and any Eurocurrency Borrowing that is requested to be continued shall be repaid on the last day of the then current Interest Period applicable thereto.

SECTION 2.12. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender; or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or Eurocurrency Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurocurrency Loan (or of maintaining its obligation to make any such Loan) or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the Company will

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pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender reasonably determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Company will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or such Lender's holding company, as specified in paragraph (a) or (b) of this Section, and setting forth in reasonable detail the calculations used by such Lender to determine such amount, shall be delivered to the Company and shall be conclusive absent manifest error. The Company shall pay to such Lender the amount shown as due on any such certificate within 15 Business Days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Company shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender notifies the Company of the Change in Law giving rise to such increased costs or reductions; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.13. Break Funding Payments. In the event of (a) the payment of any principal of any Eurocurrency Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurocurrency Loan to a Loan of a different Type or Interest Period other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto, or (d) the assignment or deemed assignment of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Company pursuant to Section 2.16, then, in any such event, the Company shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurocurrency Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or

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continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate such Lender would bid were it to bid, at the commencement of such period, for deposits in the applicable currency of a comparable amount and period from other banks in the London interbank market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section, and setting forth in reasonable detail the calculations used by such Lender to determine such amount or amounts, shall be delivered to the Company and shall be conclusive absent manifest error. The Company shall pay such Lender the amount shown as due on any such certificate within 15 Business Days after receipt thereof.

SECTION 2.14. Taxes. (a) Any and all payments by or on account of the Company hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Company shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or the applicable Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Company shall make such deductions and (iii) the Company shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Loan Parties shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Company shall indemnify the Administrative Agent and each Lender within 15 Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Company hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability setting forth in reasonable detail the circumstances giving rise thereto and the calculations used by such Lender to determine the amount thereof delivered to the Company by a Lender, or by the Administrative Agent, on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Company to a Governmental Authority, the Company shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

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(e) Any Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Company is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Company (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Company as will permit such payments to be made without withholding or at a reduced rate; provided that such Lender has received written notice from the Company advising it of the availability of such exemption or reduction and containing all applicable documentation. Each Lender shall promptly notify the Company at any time it determines that it is no longer in a position to provide any such previously delivered documentation to the Company.

SECTION 2.15. Payments Generally; Pro Rata Treatment; Sharing of Setoffs. (a) The Company shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or of amounts payable under Section 2.12, 2.13 or 2.14, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent to the applicable account specified in Schedule 2.15 or, in any such case, to such other account as the Administrative Agent shall from time to time specify in a notice delivered to the Company; provided that payments pursuant to Sections 2.12, 2.13, 2.14 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein (it being agreed that the Company will be deemed to have satisfied its obligations with respect to payments referred to in this proviso if it shall make such payments to the persons entitled thereto in accordance with instructions provided by the Administrative Agent; the Administrative Agent agrees to provide such instructions upon request, and the Company will not be deemed to have failed to make such a payment if it shall transfer such payment to an improper account or address as a result of the failure of the Administrative Agent to provide proper instructions). The Administrative Agent shall distribute any such payments received by it for the account of any Lender or other Person promptly following receipt thereof at the appropriate lending office or other address specified by such Lender or other Person. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder of principal or interest in respect of any Loan shall be made in US Dollars. Any payment required to be made by the Administrative Agent hereunder shall be deemed to have been made by the time required if the Administrative Agent shall, at or before such time, have taken the necessary steps to make such payment in accordance with the regulations or operating procedures of the clearing or settlement system used by the

(b) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on its Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of their respective Loans and accrued interest thereon; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Company pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Company or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Company consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Company rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Company in the amount of such participation.

(c) Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due for the account of all or certain of the Lenders hereunder that the Company will not make such payment, the Administrative Agent may assume that the Company has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the applicable Lenders the amount due. In such event, if the Company has not in fact made such payment, then each of the applicable Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at a rate determined by the Administrative Agent in accordance with banking industry practices on interbank compensation.

(d) If any Lender shall fail to make any payment required to be made by it to the Administrative Agent pursuant to this Agreement, then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by them for the account of such Lender to satisfy such Lender's obligations to the Administrative Agent until all such unsatisfied obligations are fully paid.

SECTION 2.16. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.12, or if the Company is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to

assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or 2.14, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Company hereby agrees to pay all reasonable, direct, out-of-pocket costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.12, or if any Loan Party is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender defaults in its obligation to fund Loans hereunder, then the Company may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in

Section 9.04), all its interests, rights and obligations under the Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Company shall have received the prior written consent of the Administrative Agent, which consent shall not be unreasonably withheld and (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee or the Company. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Company to require such assignment and delegation cease to apply.

ARTICLE III

Representations and Warranties

The Company represents and warrants as follows:

SECTION 3.01. Corporate Existence and Standing. The Company and each Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, except for failures which, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect or a material adverse effect on the rights or interests of the Lenders hereunder, and has all requisite authority to conduct its business in each jurisdiction in which the failure so to qualify could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.02. Authorization; No Violation. The Transactions are within each Loan Party's corporate or partnership powers, have been duly authorized by all necessary corporate or partnership action and do not contravene (i) any Loan Party's charter, by-laws or other constitutive documents or (ii) any law or contractual restriction binding on or affecting any Loan Party, except for contraventions of contractual restrictions which individually or in the aggregate could not reasonably be expected to

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result in a Material Adverse Effect or a material adverse effect on the rights or interests of the Lender hereunder.

SECTION 3.03. Governmental Consents. No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or regulatory body is required for the due execution, delivery and performance by the Loan Parties of this Agreement or the other Loan Documents.

SECTION 3.04. Validity. This Agreement is, and the other Loan Documents when executed and delivered will be, the legal, valid and binding obligations of the Loan Parties party thereto, enforceable against such Loan Parties in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3.05. Use of Proceeds. The Company will use the proceeds of the Loans only for the purposes specified in the preamble to this Agreement.

SECTION 3.06. Litigation. As of the date hereof, there is no pending or, to the best of the knowledge of the Company, threatened action or proceeding affecting the Company or any of its Subsidiaries before any court, Governmental Authority or arbitrator, which could reasonably be expected to result in a Material Adverse Effect, or which purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document.

SECTION 3.07. Financial Statements; No Material Adverse Change. (a) The consolidated balance sheet of the Company and the Subsidiaries and the related consolidated statements of income, shareholders' equity and cash flows of the Company and the Subsidiaries (i) as at December 31, 2004, and for the year then ended, which financial statements are accompanied by the report of PricewaterhouseCoopers LLP, and (ii) as at April 2, July 2 and October 1, 2005, and for the fiscal quarters and the portions of the fiscal year then ended, certified by the Company's chief financial officer, as heretofore furnished to the Lenders, fairly present in all material respects the consolidated financial condition of the Company and the Subsidiaries as at such dates and their consolidated results of operations, shareholders' equity and cash flows for the periods then ended in conformity with GAAP, subject to year-end adjustments and the absence of footnotes in the case of the statements referred to in clause

(ii) above.

(b) There has been, since December 31, 2004, no Material Adverse Effect.

SECTION 3.08. Investment Company Act. The Company is not (a) an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

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SECTION 3.09. Taxes. The Company and each Subsidiary has timely filed or caused to be filed all Tax returns and reports required to have been filed by it and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Company or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of such plan by an amount that could reasonably be expected to result in a Material Adverse Effect, and the present value of all accumulated benefit obligations of all underfunded plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded plans by an amount that could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Regulation U. Neither the Company nor any of the Subsidiaries is engaged in the business of purchasing or carrying Margin Stock. The value of the Margin Stock owned directly or indirectly by the Company and the Subsidiaries which is subject to any arrangement hereunder described in the definition of "indirectly secured" in Section 221.2 of Regulation U issued by the Board represents less than 25% of the value of all assets of the Company and the Subsidiaries subject to such arrangement. For the purpose of making the calculation pursuant to the preceding sentence, to the extent consistent with Regulation U, Treasury Stock shall be deemed not to be an asset of the Company and its Subsidiaries.

SECTION 3.12. Environmental Matters. The operations of the Company and each Subsidiary comply in all material respects with all Environmental Laws, the noncompliance with which could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.13. Disclosure. None of the Confidential Information Memorandum or any other information prepared and furnished by or on behalf of the Loan Parties to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains or will contain as of the date thereof (or, in the case of any such information that is not dated, the earliest date on which such information is furnished to the Administrative Agent or any Lender) any material misstatement of fact or omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Company represents only that

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such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.14. Subsidiary Guarantors. The Subsidiary Guarantors include each Domestic Subsidiary of the Company, other than any Subsidiary that is owned, directly or indirectly, by a Foreign Subsidiary (other than newly-acquired or created Domestic Subsidiaries that have not yet become

ARTICLE IV

Conditions

The obligations of the Lenders to make Loans hereunder shall not become effective until each of the following conditions has been satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received the favorable written opinions (addressed to the Administrative Agent and the Lenders and dated the date hereof) of (i) Bingham McCutchen LLP, counsel for the Company, substantially in the form of Exhibit C-1 and (ii) Mark T. Beaudouin, Vice President, General Counsel and Secretary of the Company, substantially in the form of Exhibit C-2. Each Loan Party hereby requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the formation, existence and good standing of the Loan Parties and the authorization of the Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the date hereof and signed by the chief financial officer of the Company, confirming that the conditions set forth in paragraphs (f), (g) and (h) of this Article have been satisfied.

(e) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the date hereof, including, to the extent an invoice with respect thereto shall have been received by the Company, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Company hereunder or under any other Loan

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Document.

(f) The Guarantee Requirement shall be satisfied.

(g) At the time of and immediately after giving effect to the Borrowing hereunder, the representations and warranties of the Loan Parties set forth in the Loan Documents shall be true and correct.

(h) At the time of and immediately after giving effect to the Borrowing hereunder, no Default shall have occurred or be continuing.

The Administrative Agent shall notify the Company and the Lenders of the effectiveness of the obligations of the Lenders hereunder, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions shall be satisfied (or waived pursuant to Section 9.02) on or prior to the date hereof.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Company covenants and agrees with the Lenders that it will:

SECTION 5.01. Payment of Taxes, Etc. Pay and discharge, and cause each Subsidiary to pay and discharge, before the same shall become delinquent, (i) all material taxes, assessments and governmental charges or levies imposed upon it or upon its income, profit or property, and (ii) all material lawful claims which, if unpaid, might by law become a lien upon its property; provided, however, that neither the Company nor any Subsidiary shall be required to pay or

discharge any such tax, assessment, charge or claim which is being contested in good faith and by proper proceedings and with respect to which the Company shall have established appropriate reserves in accordance with GAAP.

SECTION 5.02. Preservation of Existence, Etc. Preserve and maintain, and cause each Subsidiary to preserve and maintain, its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business, except to the extent that failures to keep in effect such rights, licenses, permits, privileges, franchises and, in the case of Subsidiaries only, legal existence could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution not prohibited under Section 6.04.

SECTION 5.03. Compliance with Laws, Etc. Comply, and cause each Subsidiary to comply, with the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority (including, without limitation, all Environmental

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Laws), noncompliance with which could reasonably be expected to result in a Material Adverse Effect.

SECTION 5.04. Keeping of Books. Keep, and cause each Subsidiary to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each Subsidiary in accordance with GAAP consistently applied.

SECTION 5.05. Inspection. Permit, and cause each Subsidiary to permit, the Administrative Agent, and its representatives and agents, to inspect any of the properties, corporate books and financial records of the Company and its Subsidiaries, to examine and make copies of the books of account and other financial records of the Company and its Subsidiaries, and to discuss the affairs, finances and accounts of the Company and its Subsidiaries with, and to be advised as to the same by, their respective officers or directors, at such reasonable times during normal business hours and intervals as the Administrative Agent may reasonably designate.

SECTION 5.06. Reporting Requirements. Furnish to the Administrative Agent for distribution to each Lender:

(a) as soon as available and in any event within 55 days after the end of each of the first three quarters of each fiscal year of the Company, a consolidated balance sheet of the Company and the consolidated Subsidiaries as of the end of such quarter and a consolidated statement of income and changes in financial position (or consolidated statement of cash flow, as the case may be) of the Company and the consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer of the Company;

(b) as soon as available and in any event within 100 days after the end of each fiscal year of the Company, a consolidated balance sheet of the Company and the consolidated Subsidiaries as of the end of such year and a consolidated statement of income and stockholder's equity and changes in financial position of the Company and the consolidated Subsidiaries for such fiscal year and accompanied by a report of PricewaterhouseCoopers LLP, independent public accountants of the Company, or other independent public accountants of nationally recognized standing, on the results of their examination of such consolidated annual financial statements of the Company and the consolidated Subsidiaries, which report shall be reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, or shall be otherwise reasonably acceptable to the Required Lenders;

(c) promptly after the sending or filing thereof, copies of all financial information, reports and proxy materials the Company files with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, including, without limitation, all such reports that disclose material litigation pending against the Company or any Subsidiary or any material

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noncompliance with any Environmental Law on the part of the Company or any Subsidiary;

(d) together with each financial statement delivered pursuant to clauses (a) and (b) above, a certificate signed by the chief financial officer of the Company (A) stating that no Default exists or, if any does exist, stating the nature and status thereof and describing the action the Company proposes to take with respect thereto and (B) demonstrating, in reasonable detail, the calculations used by such officer to determine compliance with the financial covenants contained in Sections 6.07 and 6.08;

(e) with respect to each fiscal year for which the Company shall have an aggregate Unfunded Liability of \$15,000,000 or more for all of its single employer pension benefit plans covered by Title IV of ERISA and all multiemployer pension benefit plans covered by Title IV of ERISA to which the Company has an obligation to contribute, as soon as available, and in any event within ten months after the end of such fiscal year, a statement of Unfunded Liabilities of each such plan, certified as correct by an actuary enrolled in accordance with regulations under ERISA and a statement of estimated withdrawal liability as of the most recent plan year end as customarily prepared by the trustees under the multiemployer plans to which the Company has an obligation to contribute;

(f) as soon as possible, and in any event within 30 days after the occurrence of each event the Company knows is or may be a reportable event (as defined in Section 4043 of ERISA, but excluding any reportable event with respect to which the 30 day reporting requirement has been waived) with respect to any plan with an Unfunded Liability in excess of \$15,000,000, a statement signed by the chief financial officer of the Company describing such reportable event and the action which the Company proposes to take with respect thereto;

(g) as soon as possible, and in any event within five Business Days after the Company shall become aware of the occurrence of each Default, which Default is continuing on the date of such statement, a statement of the chief financial officer of the Company setting forth details of such Default or event and the action which the Company proposes to take with respect thereto;

(h) from time to time, such other information as to the business and financial condition of the Company and the Subsidiaries and their compliance with the Loan Documents as the Administrative Agent, or any Lender through the Administrative Agent, may reasonably request; and

(i) promptly following a request therefor, all documentation and other information that a Lender reasonably requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act.

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Information required to be delivered to the Administrative Agent pursuant to this Section 5.01 shall be deemed to have been distributed to the Lenders if such information, or one or more annual or quarterly reports containing such information, shall have been posted by the Administrative Agent on an IntraLinks or similar site to which the Lenders have been granted access or shall be available on the website of the Securities and Exchange Commission at <http://www.sec.gov> (and a confirming electronic correspondence shall have been delivered or caused to be delivered to the Lenders providing notice of such posting or availability). Information required to be delivered pursuant to this Section 5.01 may also be delivered by electronic communications pursuant to procedures approved by the Administrative Agent.

SECTION 5.07. Use of Proceeds. Use the proceeds of Borrowings hereunder for the purposes referred to in the recitals to this Agreement, and not for any purpose that would entail a violation of any applicable law or regulation (including, without limitation, Regulations U and X of the Board).

SECTION 5.08. Guarantee Requirement. Cause the Guarantee Requirement to be satisfied at all times.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Company covenants and agrees with the Lenders that it will not:

SECTION 6.01. Subsidiary Debt. Permit any Subsidiary that is not a Subsidiary Guarantor to create, incur, assume or permit to exist any Debt, except:

- (a) Debt created hereunder;
- (b) Debt existing on the date hereof and set forth in Schedule 6.01 and extensions, renewals and replacements of any such Debt that do not increase the outstanding principal amount thereof;
- (c) Debt to the Company or any other Subsidiary; and
- (d) other Debt; provided that the sum of (without duplication) (i) the principal amount of all Debt permitted by this clause (d), (ii) the principal amount of all Debt secured by Liens permitted by Section 6.02 and (iii) all Attributable Debt in respect of Sale and Leaseback Transactions (other than Sale and Leaseback Transactions entered into at the time the property subject thereto is acquired or within 90 days thereafter) permitted by Section 6.03 does not at any time exceed the greater of \$150,000,000 or 15% of Consolidated Net Tangible Assets.

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SECTION 6.02. Liens Securing Debt. Create, incur, assume or permit to exist, or permit any Subsidiary to create, incur, assume or permit to exist, any Lien on any property or asset now owned or hereafter acquired by it securing Debt unless, after giving effect thereto, the sum of (without duplication) (i) all Debt secured by all such Liens, (ii) the principal amount of all Debt of Subsidiaries that are not Subsidiary Guarantors permitted by Section 6.01(d) and (iii) all Attributable Debt in respect of Sale and Leaseback Transactions (other than Sale and Leaseback Transactions entered into at the time the property subject thereto is acquired or within 90 days thereafter) permitted by Section 6.03 does not at any time exceed the greater of \$150,000,000 or 15% of Consolidated Net Tangible Assets. For the purpose of this Section 6.02, Treasury Stock to the extent constituting Margin Stock shall be deemed not to be an asset of the Company and its Subsidiaries.

SECTION 6.03. Sale and Leaseback Transactions. Enter into or be party to, or permit any Subsidiary to enter into or be party to, any Sale and Leaseback Transaction (other than any Sale and Leaseback Transaction entered into at the time the property subject thereto is acquired or within 90 days thereafter) unless after giving effect thereto the sum of (without duplication) (i) all Attributable Debt permitted by this Section, (ii) the principal amount of all Debt of Subsidiaries that are not Subsidiary Guarantors permitted by Section 6.01(d) and (iii) the principal amount of all Debt secured by Liens permitted by Section 6.02(i) does not exceed the greater of \$150,000,000 or 15% of Consolidated Net Tangible Assets.

SECTION 6.04. Merger, Consolidation, Etc. (a) In the case of the Company, merge or consolidate with or into, or transfer or permit the transfer of all or substantially all its consolidated assets to, any Person (including by means of one or more mergers or consolidations of or transfers of assets by Subsidiaries), except that the Company may merge or consolidate with any US Corporation if (i) the Company shall be the surviving corporation in such merger or consolidation, (ii) immediately after giving effect thereto no Default shall have occurred and be continuing and (iii) the Company shall be in compliance with the covenants set forth in Sections 6.07 and 6.08 as of and for the most recently ended period of four fiscal quarters for which financial statements shall have been delivered pursuant to Section 5.06, giving pro forma effect to such merger or consolidation and any related incurrence of Debt as if they had occurred at the beginning of such period, and the Administrative Agent shall have received a certificate of the chief financial officer of the Company setting forth computations demonstrating such compliance.

(b) In the case of any Material Subsidiary, merge or consolidate with or into, or transfer all or substantially all its assets to, any Person, except that (i) any Material Subsidiary may merge into or transfer all or substantially all its assets to the Company, (ii) any Material Subsidiary may merge or consolidate with or transfer all or substantially all its assets to any Subsidiary; provided that if either constituent corporation in such merger or consolidation, or the transferor of such assets, shall be a Subsidiary Guarantor, then the surviving or resulting corporation or the transferee of such assets, as the case may be, must be or at the time of such transaction become a

Subsidiary Guarantor and (iii) so long as, immediately after giving effect to such transaction, no

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Default shall have occurred and be continuing, any Material Subsidiary may merge or consolidate with or transfer all or substantially all its assets to any Person other than the Company or a Subsidiary so long as such transaction would not be prohibited by paragraph (a) above. Notwithstanding the foregoing, nothing in this paragraph shall (a) so long as, at the time of and immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing, prohibit the Company or any Subsidiary from (i) transferring any assets of such Person to acquire Foreign Subsidiaries, (ii) making capital or working capital contributions to Foreign Subsidiaries in the ordinary course of business, or (iii) selling or otherwise disposing of assets to a Foreign Subsidiary on arm's-length terms (as determined in good faith by the Company or the applicable Subsidiary) or (b) require any Foreign Subsidiary to become a Subsidiary Guarantor hereunder.

(c) In the case of the Company, permit any Domestic Subsidiary to become a subsidiary of a Foreign Subsidiary; provided that nothing in this paragraph shall prevent the Company from acquiring, directly or indirectly, any Person that at the time of and immediately after giving effect to such acquisition would constitute a Foreign Subsidiary and would own any Domestic Subsidiary not acquired by it in contemplation of such acquisition.

For purposes of this Section 6.04, Treasury Stock to the extent constituting Margin Stock shall be deemed not to be an asset of the Company.

SECTION 6.05. Change in Business. Engage or permit any Subsidiary to engage to any material extent in any business other than the business conducted by the Company and the Subsidiaries on the date hereof and other businesses reasonably related thereto.

SECTION 6.06. Certain Restrictive Agreements. Enter into, or permit any Subsidiary to enter into, any contract or other agreement that would limit the ability of any Subsidiary to pay dividends or make loans or advances to, or to repay loans or advances from, the Company or any other Subsidiary, other than (i) customary non-assignment provisions in any lease or sale agreement relating to the assets that are the subject of such lease or sale agreement, (ii) any restriction binding on a Person acquired by the Company at the time of such acquisition, which restriction is applicable solely to the Person so acquired and its subsidiaries and was not entered into in contemplation of such acquisition and (iii) in connection with any secured Debt permitted under Section 6.02, customary restrictions on the transfer of the collateral securing such Debt.

SECTION 6.07. Leverage Ratio. Permit the Leverage Ratio at any time to exceed 3.25:1.00.

SECTION 6.08. Interest Coverage Ratio. Permit the Interest Coverage Ratio for any period of four consecutive fiscal quarters to be less than 3.50:1.00.

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ARTICLE VII

Events of Default

If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Company shall fail to pay (i) any amount of principal of any Loan when due hereunder or (ii) any interest, fee or other amount due hereunder and such default shall continue for five days; or

(b) Any representation or warranty made or deemed made by the Company or any other Loan Party (or any of their respective officers) in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made; provided, however, that no Event of Default shall be deemed to exist by reason of the incorrectness of any representation or warranty after such incorrectness shall have been cured (other than by disclosure, which shall not be deemed to cure any breach of a

representation or warranty); or

(c) The Company or any Subsidiary shall fail to maintain its corporate, limited liability company or partnership existence as required by Section 5.02, or the Company or any Subsidiary shall fail to perform or observe any term, covenant or agreement contained in Section 5.06(g), Section 5.07 or Article VI of this Agreement on its part to be performed or observed; or

(d) The Company or any Subsidiary shall (i) fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed (other than those failures or breaches referred to in paragraphs (a), (b) and (c) above) and any such failure shall remain unremedied for 30 days after written notice thereof has been given to the Company by the Administrative Agent or the Required Lenders; or

(e) The Company or any Subsidiary shall fail to pay any amount of principal of, interest on or premium with respect to, Material Debt (other than the Loans) when due (whether at scheduled maturity or by required prepayment, acceleration, demand or otherwise) and such failure shall continue beyond the applicable grace period, if any, specified in the agreement or instrument governing such Debt, or any other event shall occur or condition shall exist with respect to Material Debt (other than the Loans) of the Company or such Subsidiary if the effect of such other event or condition is to cause, or to permit the holder or holders of such debt (or any trustee or agent on their behalf) to cause, such Material Debt to become due, or to require such Material Debt to be repaid or repurchased, prior to the stated maturity thereof; or

(f) The Company or any Subsidiary shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally; or

(g) The Company or any Subsidiary shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company

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or such Subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debt under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property; or the Company or any such Subsidiary shall take corporate action to authorize any of the actions set forth above in this paragraph (g); provided that, in the case of any such proceeding filed or commenced against the Company or any Subsidiary, such event shall not constitute an "Event of Default" hereunder unless either (i) the same shall have remained undismissed or unstayed for a period of 60 days, (ii) an order for relief shall have been entered against the Company or such Subsidiary under the federal bankruptcy laws as now or hereafter in effect or (iii) the Company or such Subsidiary shall have taken corporate action consenting to, approving or acquiescing in the commencement or maintenance of such proceeding; or

(h) Any judgment or judgments for the payment of money in excess of \$20,000,000 in the aggregate for all such judgments shall be rendered against the Company or one or more Subsidiaries and (i) enforcement proceedings shall have been commenced by any creditor upon such judgments or (ii) there shall be any period of 10 consecutive days during which stays of enforcement of such judgments, by reason of pending appeals or otherwise, shall not be in effect;

(i) Either (i) the Pension Benefit Guaranty Corporation shall terminate any single-employer plan (as defined in Section 4001(b)(2) of ERISA) that provides benefits for employees of the Company or any Subsidiary and such plan shall have an Unfunded Liability in an amount in excess of \$5,000,000 at such time or (ii) withdrawal liability shall be assessed against the Company or any Subsidiary in connection with any multiemployer plan (whether under Section 4203 or Section 4205 of ERISA) and such withdrawal liability shall be an amount in excess of \$5,000,000 or

(j) the guarantee of any Subsidiary Guarantor under the Subsidiary Guarantee Agreement shall not be (or shall be asserted by the Company or any Subsidiary Guarantor not to be) valid or in full force and effect; or

(k) a Change of Control shall have occurred.

then, and in any such event, the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, by notice to the Company, (i) declare the obligation of each Lender to make Loans, whereupon the same shall forthwith terminate and/or (ii) declare the Loans, all interest accrued and unpaid thereon and all other amounts outstanding or accrued under this Agreement to be forthwith due and payable, whereupon the Loans, all such accrued interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Company. In the event of the occurrence of an Event of Default under clause (g) of this Article VII, (A) the obligation of each Lender to make Loans hereunder shall automatically be terminated and (B) the Loans, all interest accrued and unpaid thereon and all other amounts outstanding or accrued under this

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Agreement shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Company.

ARTICLE VIII

The Administrative Agent

In order to expedite the transactions contemplated by this Agreement, the Person named in the heading of this Agreement is hereby appointed to act as Administrative Agent on behalf of the Lenders. Each of the Lenders and each assignee of any Lender hereby irrevocably authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders all payments of principal of and interest on the Loans and all other amounts due to the Lenders hereunder, and promptly to distribute to each Lender its proper share of each payment so received; (b) to give notice on behalf of each of the Lenders to the Company of any Event of Default of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender copies of all notices, financial statements and other materials delivered by the Company or any other Loan Party pursuant to this Agreement or the other Loan Documents as received by the Administrative Agent.

With respect to the Loans made by it hereunder, the Administrative Agent in its individual capacity and not as Administrative Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not the Administrative Agent, and the Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise upon receipt of notice in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and the Administrative Agent shall not be liable for the failure to disclose, any information relating to the Company or any of its Subsidiaries that is communicated to or obtained by the institution serving as Administrative Agent or

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any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall not be deemed to have knowledge of any Default unless

and until written notice thereof is given to the Administrative Agent by the Company, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Company), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facility provided for herein as well as activities as the Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Company. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Company, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the

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retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Each Lender hereby acknowledges that each institution named on the cover page of this Agreement as Syndication Agent has no duties or responsibilities hereunder other than, in the case of a Syndication Agent that is a Lender, in its capacity as a Lender.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Company, to 34 Maples Street, Milford, MA 01757, Attention of John Lynch (Telecopy No. (508) 482-2249);

(b) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., 10 South Dearborn, 19th floor, Chicago, IL 60603, Attention of Medy Hernandez (Telecopy No. (312) 385-7107, Telephone No. (312) 385-7037); and

(c) if to any Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

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SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time.

(b) Except as provided in Section 2.07 with respect to an Incremental Facility Amendment, none of this Agreement, or any other Loan Document or any provision hereof or thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Company and the Required Lenders or by the Company and the Administrative Agent with the consent of the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall (i) increase any Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender adversely affected thereby, (iii) postpone the date of any scheduled payment of the principal amount of any Loan, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.15(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender, or alter the manner in which payments or prepayments of principal, interest or other amounts hereunder shall be applied as among Lenders or Types of Loans without the written consent of each Lender, (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender, (vi) release all or substantially all the Subsidiary Guarantors from, or limit or condition, their obligations under the Subsidiary Guarantee Agreement, or change the definition of Guarantee Requirement without the written consent of each Lender, or (vii) change any provision of this Agreement that requires action by each Lender without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder or under any other Loan Document without the prior written consent of the Administrative Agent.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Company shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facility provided for herein, the preparation and administration of this Agreement or the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all reasonable out-of-pocket expenses (including reasonable fees, charges and disbursements of any counsel) incurred by the Administrative Agent, and, following and during the continuance of an Event of Default, any Lender, in connection with the enforcement or protection of its rights in connection with any Loan Document, including its rights under this Section, or in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

The Company shall indemnify the Administrative Agent and each Lender and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, liabilities and reasonable out-of-pocket costs or expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) any transaction or proposed transaction (whether or not consummated) in which any proceeds of any Borrowing hereunder are applied or proposed to be applied, directly or indirectly, by the Company or any Subsidiary, (ii) any Loan or the use of the proceeds therefrom or (iii) the execution, delivery or performance by the Company and the Subsidiaries of the Loan Documents, or any actions or omissions of the Company or any Subsidiary in connection therewith (and, in the case of any such loss, liability, cost or expense arising out of any litigation, investigation or other proceeding, regardless of whether such proceeding shall have been commenced by the Company, any Subsidiary of the Company or any other Person or whether any Indemnitee shall be a party thereto); provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, liabilities, costs or expenses are determined by a court of competent jurisdiction by final and unappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee or from the breach of such Indemnitee of its agreements hereunder.

(b) To the extent that the Company fails to pay any amount required to be paid by it to the Administrative Agent or any of its Related Parties under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed loss, liability, cost or expense, as the case may be, was incurred by or asserted against the Administrative Agent (or such Related Party) in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based upon its share of the sum (without duplication) of the total Loans at the time.

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(c) To the extent permitted by applicable law, the Company shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the Transactions, any Loan or the use of the proceeds thereof.

(d) All amounts due under this Section shall be payable within 15 Business Days after receipt by the Company of a reasonably detailed invoice therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Company without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective

successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders), any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans or other amounts at the time owing to it); provided that (i) except in the case of an assignment to a Lender the Administrative Agent and, except (A) in the case of an assignment to a Lender, an Affiliate of a Lender or a Related Fund of any Lender or (B) if an Event of Default shall have occurred and be continuing, the Company must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) unless an Event of Default has occurred and is continuing, except in the case of an assignment to a Lender, an Affiliate of a Lender or a Related Fund of any Lender or an assignment of the entire remaining amount of the assigning Lender's Commitments and outstanding Loans, the amount of the Commitments and outstanding Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Company and the Administrative Agent otherwise consent, (iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, and (iv) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and,

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in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.13, 2.14 and 9.03). At the time of any assignment, the assignee shall provide to the Company the documentation described in Section 2.14(e). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Company, shall maintain at one of its offices in The City of New York a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Company, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Company and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Company or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Company, the Administrative Agent and the other Lenders shall continue to deal

solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in clause (i), (ii), (iii) or (vi) of the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Company agrees that each Participant shall be

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entitled to the benefits of Sections 2.12, 2.13, 2.14 and 9.08 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.12 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Company's prior written consent. A Participant shall not be entitled to the benefits of Section 2.14 unless the Company is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Company, to comply with Section 2.14(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or, in the case of a Lender that is an investment fund, to the trustee under the indenture to which such fund is a party, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties herein or in any other Loan Document or in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto or thereto and shall survive the execution and delivery of this Agreement and any other Loan Document and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 2.12, 2.13, 2.14, 9.03 and 9.12 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement or any other Loan Document or any provision hereof or thereof; provided, however, that the provisions of Section 9.12 shall expire two years after the later of (i) the repayment of the Loans and the expiration or termination of the Commitments and (ii) the termination of this Agreement.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative

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Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Article IV, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the

signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final and in whatever currency denominated) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Company against any of and all the obligations of the Company now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Company hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent or any Lender

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may otherwise have to bring any action or proceeding relating to this Agreement against the Company or its properties in the courts of any jurisdiction.

(c) The Company hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. The Administrative Agent and each Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors, to Related Funds' directors and officers and to any direct or indirect contractual counterparty in swap agreements (it being understood that each Person to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) to the extent required or advisable in the judgment of counsel in connection with any suit, action or proceeding

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relating to the enforcement of rights of the Administrative Agent or the Lenders against the Company under this Agreement or any other Loan Document, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Company or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section of which such Agent or Lender is aware or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Company other than as a result of a breach of this Section of which such Agent or Lender is aware. For the purposes of this Section, "Information" means all information received from the Company relating to the Company or its business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Company other than as a result of a breach of this Section of which the Administrative Agent or such Lender is aware. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Release of Subsidiary Guarantors. Notwithstanding any contrary provision herein or in any other Loan Document, if the Company shall request the release under the Subsidiary Guarantee Agreement of any Subsidiary to be sold or otherwise disposed of (including through the sale or disposition of any Subsidiary owning any such Subsidiary) to a Person other than the Company or a Subsidiary in a transaction permitted under the terms of this Agreement and shall deliver to the Administrative Agent a certificate to the effect that such sale or other disposition will comply with the terms of this Agreement, the Administrative Agent, if satisfied that the applicable certificate is correct, shall, without the consent of any Lender, execute and deliver all such instruments, releases or other agreements, and take all such further actions, as shall be necessary to effectuate the release of such Subsidiary at the time of or at any time after the completion of such sale or other disposition.

SECTION 9.14. USA PATRIOT Act. Each Lender hereby notifies the Company that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Lender to identify the Company in accordance with the USA PATRIOT Act.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

WATERS CORPORATION,

By /s/ John Ornell

Name: -----
Title: -----

JPMORGAN CHASE BANK, N.A., individually
and as Administrative Agent,

by /s/ D. Scott Farquhar

Name: D. Scott Farquhar
Title: Vice President

FIRST AMENDMENT dated as of October 12, 2005 (this "Amendment"), to the FIVE YEAR CREDIT AGREEMENT dated as of December 15, 2004 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among WATERS CORPORATION, a Delaware corporation (the "Company"); WATERS TECHNOLOGIES IRELAND LTD. and WATERS CHROMATOGRAPHY IRELAND LTD., both companies organized under the laws of Ireland (the "European Borrowers"; the Company and the European Borrowers being collectively called the "Borrowers"); the Lenders (as defined therein); JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent"); and J.P. MORGAN EUROPE LIMITED, as London Agent.

A. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

B. The Company has requested that the Lenders amend the Credit Agreement as set forth herein.

C. The Required Lenders are willing to effect such amendment on the terms and subject to the conditions of this Amendment.

D. Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendment of the Credit Agreement. Effective as of the Amendment Effective Date:

(a) Section 6.07 of the Credit Agreement is amended by deleting such Section and replacing it with the following:

"SECTION 6.07. Leverage Ratio. Permit the Leverage Ratio at any time to exceed 3.25:1.00."

(b) The definition of "Applicable Rate" in Section 1.01 of the Credit Agreement is amended by (i) deleting the table in paragraph (b) of such definition and replacing it with the following table:

CATEGORY	LEVERAGE RATIO	FACILITY FEE (BASIS POINTS PER ANNUM)	LIBOR SPREAD (BASIS POINTS PER ANNUM)	ABR SPREAD (BASIS POINTS PER ANNUM)
Category 1	< 1.00	8.0	29.5	0.0
Category 2	> or = 1.00 and < 1.50	10.0	40.0	0.0
Category 3	> or = 1.50 and < 2.00	12.5	50.0	0.0
Category 4	> or = 2.00 and < 2.50	15.0	60.0	0.0
Category 5	> or = 2.50 and < 3.00	17.5	80.0	0.0
Category 6	> or = 3.00	20.0	92.5	0.0

and (ii) replacing the words "Category 5" with the words "Category 6" in the last sentence of paragraph (b) of such definition.

(c) The definition of "Consolidated EBITDA" in Section 1.01 of the Credit Agreement is amended by deleting such definition and replacing it with the following:

"Consolidated EBITDA" means, for any period, the consolidated net income (loss) of the Company and the Subsidiaries for such period plus, to the extent deducted in computing such consolidated net income for such period, the sum (without duplication) of (a) Consolidated Interest Expense, (b) consolidated income tax expense, (c) depreciation and amortization expense, (d) stock-based employee compensation expense related to any grant of stock options or restricted stock to the extent deducted from such consolidated net income for such period pursuant to Statement of Financial

Accounting Standards 123 (revised 2004) and (e) extraordinary or non-recurring non-cash expenses or losses, minus, to the extent added in computing such consolidated net income for such period, extraordinary gains, all determined on a consolidated basis.

SECTION 2. Representations and Warranties. To induce the other parties hereto to enter into this Amendment, the Company represents and warrants to each of the Lenders and the Administrative Agent that, as of the Amendment Effective Date (as defined in Section 3):

(a) The representations and warranties set forth in Article III of the Credit Agreement are, after giving effect to this Amendment, true and correct in all material respects on and as of the Amendment Effective Date with the same effect as though made on and as of the Amendment Effective Date, except to the extent such representations and warranties expressly relate to an earlier date (in which case they were true and correct in all material respects as of such earlier date).

(b) No Default or Event of Default has occurred and is continuing.

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SECTION 3. Effectiveness. This Amendment shall become effective as of the first date (the "Amendment Effective Date") on which the following conditions have been satisfied:

(a) The Administrative Agent (or its counsel) shall have received duly executed counterparts hereof that, when taken together, bear the signatures of (i) the Administrative Agent, (ii) the Company and (iii) the Required Lenders.

(b) The Administrative Agent shall have received a certificate of the chief financial officer of the Company to the effect that the representations and warranties set forth in Section 2 hereof are true and correct on and as of the Amendment Effective Date.

The Administrative Agent shall notify the Company and the Lenders of the Amendment Effective Date, and such notice shall be conclusive and binding.

SECTION 4. Effect of Amendment. (a) Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or the Administrative Agent under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or of any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle the Company or any other Borrower to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances.

(b) On and after the Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import, and each reference to the Credit Agreement in any Loan Document, shall be deemed a reference to the Credit Agreement as amended hereby. This Amendment shall constitute a "Loan Document" for all purposes of the Credit Agreement and the other Loan Documents.

SECTION 5. Costs and Expenses. The Company agrees to reimburse the Administrative Agent for its reasonable out of pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent.

SECTION 6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of any executed counterpart of a signature page of this Amendment by facsimile transmission shall be as effective as delivery of a manually executed counterpart hereof.

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SECTION 7. Applicable Law. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

SECTION 8. Headings. The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their duly authorized officers, all as of the date and year first above written.

WATERS CORPORATION,

by /s/ John Ornell

Name: _____

Title: _____

JPMORGAN CHASE BANK, N.A.,
Individually and as Administrative
Agent,

by /s/ D. Scott Farquhar

Name: D. Scott Farquhar
Title: Vice President

SIGNATURE PAGE TO
FIRST AMENDMENT TO THE
WATERS CORPORATION CREDIT AGREEMENT
DATED AS OF DECEMBER 15, 2004

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

ABN AMRO BANK N.V.

by /s/ Eric Oppenheimer

Name: Eric Oppenheimer
Title: Director

by /s/ Kevin Legallo

Name: Kevin Legallo
Title: Assistant Vice President

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Bank of America, N.A.

by /s/ Peter D. Griffith

Name: Peter D. Griffith
Title: Senior Vice President

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Citizens Bank of Massachusetts

by /s/ Paul R. Elwood

Name: Paul R. Elwood
Title: Assistant Vice President

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Barclays Bank PLC

by /s/ David Barton

Name: David Barton
Title: Associate Director

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

The Bank of New York

by /s/ Thomas J. McCormack

Name: Thomas J. McCormack
Title: VP

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Deutsche Bank AG New York Branch

by /s/ Frederick W. Laird

Name: Frederick W. Laird
Title: Managing Director

by /s/ Ming K. Chu

Name: Ming K. Chu
Title: Vice President

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

The Governor and Company of
the Bank of Ireland

by /s/ Fergus McDonald

Name: Fergus McDonald
Title: Director

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Bank of Tokyo-Mitsubishi
Trust Company

by /s/ A. Bernstein

Name: A. Bernstein
Title: Assistant Vice President

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

HSBC Bank USA, N.A.

by /s/ Kenneth V. McGraime

Name: Kenneth V. McGraime
Title: Senior Vice President,
Commercial Executive

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

KEYBANK NATIONAL ASSOCIATION

by /s/ J. T. Taylor

Name: J. T. Taylor

Title: Senior Vice President

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Allied Irish Banks, plc.

by /s/ Michael Doyle

Name: Michael Doyle

Title: Senior Vice President

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

Mizuho Corporate Bank (USA)

by /s/ Raymond Ventura

Name: Raymond Ventura

Title: Senior Vice President

To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

SunTrust Bank

by /s/ W. Brooks Hubbard

Name: W. Brooks Hubbard
Title: Director

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

KBC Bank N.V.

by /s/ Robert M. Surdam, Jr.

Name: Robert M. Surdam, Jr.
Title: Vice President

by /s/ Robert Snauffer

Name: Robert Snauffer
Title: First Vice President

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To approve First Amendment to the
Waters Corporation Credit Agreement
dated as of December 15, 2004:

Name of Institution:

The Norinchukin Bank, New York Branch

by /s/ Masanori Shoji

Name: Masanori Shoji
Title: Joint General Manager

CHANGE OF CONTROL/SEVERANCE AGREEMENT

This CHANGE OF CONTROL/SEVERANCE AGREEMENT, dated as of February 24, 2004, is made by and between Waters Corporation (together with all subsidiaries or affiliates hereinafter referred to as the "Company") and Elizabeth B. Rae (the "Executive").

WHEREAS, the Executive has been hired as a senior executive of the Company and is expected to make major contributions to the Company; and

WHEREAS, the Company desires continuity of management; and

WHEREAS, the Executive is willing to render services to the Company subject to the conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Executive agree as follows:

1. TERMINATION PRIOR TO A CHANGE OF CONTROL. If, within nine (9) months prior to a Change of Control (as such term is defined in Section 3(c) below) and subsequent to the commencement of substantive discussions that ultimately result in the Change of Control, but prior to such Change of Control, the Company terminates the Executive's employment with the Company for a reason other than Cause (as such term is defined in Section 3(d) below), death or Disability (as such term is defined in Section 3(e) below), the Company shall:

(a) Pay to the Executive a lump sum amount (reduced by any required withholding), within ten (10) business days following the Change of Control, equal to the sum of (i) twelve (12) times his monthly base salary (at the highest monthly base salary rate in effect for the Executive in the twelve-month period prior to the termination of his employment) and (ii) an amount equal to the amount payable pursuant to the immediately preceding clause (i) times his target bonus percentage under the Company's Management Incentive Plan or any successor plan for the year in which the termination of the Executive's employment occurs; and

(b) Provide the Executive and his dependents with the same life, accident, health and dental insurance benefits that the Executive was receiving immediately prior to the termination of his employment until the earlier of: (i) the date which is twelve (12) months following the date of the Change of Control; or (ii) the date the Executive commences subsequent employment; provided, that if the Executive's continued participation is not possible under the terms of any one or more of those insurance plans, the Company shall pay to the Executive the amount the Company would have paid in premiums under the relevant plan or plans had the Executive continued to be employed by the Company and continued to participate in the relevant

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plan or plans. The Executive and his dependents shall be entitled to health insurance continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), from the date of discontinuance specified in the preceding sentence, to the extent such coverage is required to be provided in accordance with applicable law; and

(c) On the Change of Control, and notwithstanding any contrary provisions of the Amended and Restated 1994 Stock Option Plan, the Second Amended and Restated 1996 Long-Term Performance Incentive Plan or the 2003 Equity Incentive Plan (or any plans that may become the successors to such plans) and any equity incentive agreements entered into between the Company and the Executive pursuant to such plans or otherwise, cause any unexercisable installments of any equity of the Company or any subsidiary or affiliate of the Company held by the Executive pursuant to any such equity incentive agreement on the Executive's last date of employment with the Company that have not expired to become exercisable, or in the case of any restrictions on the vesting of any equity of the Company or any subsidiary or affiliate of the Company held by the Executive pursuant to any such equity incentive agreement, to cause such restrictions to lapse, as the case may be, on the Change of Control; and

(d) On the Change of Control, cause any unvested portion of any qualified or non-qualified capital accumulation benefits granted to the Executive under the Waters Investment Plan, Waters Retirement Plan, Waters 401(k) Restoration Plan, and the Waters Retirement Restoration Plan (or any plans that may become

the successors to such plans) to become immediately vested (subject to applicable law);

provided, however, that any amounts and benefits set forth in this Section 1 shall be reduced by any and all other severance or other amounts or benefits paid or payable to the Executive as a result of the termination of his employment.

2. TERMINATION FOLLOWING A CHANGE OF CONTROL.

If, at any time during a period commencing with a Change of Control and ending eighteen (18) months after such Change of Control, the Company terminates the Executive's employment for a reason other than Cause, death, or Disability or the Executive terminates his employment with the Company for "Good Reason" (provided, however, that any such termination by the Executive must occur promptly (and, in any event, within 90 days) after the occurrence of the event or events constituting "Good Reason"), the Company shall:

(a) Pay to the Executive a lump sum amount (reduced by any required withholding), within ten (10) business days following the Executive's last date of employment, equal to the sum of twelve (12) times his monthly base salary (at the highest monthly base salary rate in effect for such Executive in the twelve (12) month period prior to the termination of his employment) and (ii) an amount equal to the amount payable pursuant to the immediately preceding clause (i) times his target bonus percentage under the Company's Management Incentive Plan or any successor plan for the year in which the termination of the Executive's employment occurs; and

(b) Provide the Executive and his dependents with the same life, accident,

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health and dental insurance benefits that the Executive was receiving immediately prior to the termination of his employment until the earlier of: (i) the date which is twelve (12) months following the date of the Change of Control; or (ii) the date the Executive commences subsequent employment; provided, that if the Executive's continued participation is not possible under the terms of any one or more of those insurance plans, the Company shall pay to the Executive the amount the Company would have paid in premiums under the relevant plan or plans had the Executive continued to be employed by the Company and continued to participate in the relevant plan or plans. The Executive and his dependents shall be entitled to health insurance continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), from the date of discontinuance specified in the preceding sentence, to the extent such coverage is required to be provided in accordance with applicable law; and

(c) Notwithstanding any contrary provisions of the Amended and Restated 1994 Stock Option Plan, the Second Amended and Restated 1996 Long-Term Performance Incentive Plan or the 2003 Equity Incentive (or any plans that may become the successors to such plans) and any equity incentive agreements entered into between the Company and the Executive pursuant to such plans or otherwise, cause any unexercisable installments of any equity of the Company or any subsidiary or affiliate of the Company held by the Executive pursuant to any such equity incentive agreement on the Executive's last date of employment with the Company that have not expired to become exercisable, or, in the case of any restrictions on the vesting of any equity of the Company or any subsidiary or affiliate of the Company held by the Executive pursuant to any such equity incentive agreement, to cause such restrictions to lapse, as the case may be, on such last date of employment; and

(d) Cause any unvested portion of any qualified and non-qualified capital accumulation benefits granted to the Executive under the Waters Investment Plan, Waters Retirement Plan, Waters 401(k) Restoration Plan, and the Waters Retirement Restoration Plan (or any plans that may become the successors to such plans) to become immediately vested (subject to applicable law);

provided, however, that any amounts and benefits set forth in this Section 2 shall be reduced by any and all other severance or other amounts or benefits paid or payable to the Executive as a result of the termination of his employment.

For purposes of this Section 2 above, "Good Reason" shall mean the occurrence (without the Executive's express written consent) of one or more of the following events following a Change of Control, as the case may be:

(a) The assignment to the Executive of any duties inconsistent in any

adverse, material respect with his position, authority, duties or responsibilities immediately prior to the Change of Control or any other action by the Company which results in a material diminution in such position, authority, duties or responsibilities;

(b) A material reduction in the aggregate of the Executive's base and incentive compensation (except for salary reductions or incentive compensation reductions similarly affecting all senior executives of the Company) or the

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termination of the Executive's rights to any employee benefits that he was entitled to immediately prior to the Change of Control, except to the extent any such benefit is replaced with a comparable benefit, or a reduction in scope or value thereof; or

(c) A relocation of the Executive's place of business which results in the one-way commuting distance for the Executive increasing by more than 25 miles from the location thereof immediately prior to the Change of Control (provided, however, that travel with past practices for business purposes shall not be considered "commuting" for purposes of this clause (iii)), or

(d) A failure by the Company to obtain the agreement referenced in Section 3(h); provided, that the occurrence of any of the events listed in clauses (a) through (d) shall not mean "Good Reason" if such event follows an event or action by the Executive that would constitute Cause (as defined herein) for termination.

3. GENERAL.

(a) Notwithstanding any other provision of this Agreement to the contrary, benefits shall be payable under this paragraph only if the Executive enters into a final and binding agreement prepared by the Company whereby the Executive releases the Company and its subsidiaries (and those affiliated with the Company and its subsidiaries) from all claims that the Executive may otherwise have against them, to the extent that the basis for such claims arose on or before the date the release is signed by the Executive; except that such release shall not adversely affect the Executive's rights to enforce the terms of this Agreement, and shall not adversely affect the Executive's right to any indemnification or right to reimbursement of expenses by the Company to which he would otherwise be entitled to under, without limitation, any charter document or Company insurance policy, by reason of services he rendered for the Company or any of its subsidiaries as an officer and/or an employee thereof.

(b) In the event the Executive's employment with the Company is terminated by the Company for "Cause", or the Executive terminates his employment with the Company other than during the specific time periods set forth in Section 2 or for any reason other than Good Reason, the Executive shall not be entitled to the severance benefits or other considerations described herein by virtue of this Agreement.

(c) For purposes of this Agreement, "Change of Control" shall mean (i) the closing of a merger, consolidation, liquidation or reorganization of the Company into or with another company or other legal person, after which merger, consolidation, liquidation or reorganization the capital stock of the Company outstanding prior to consummation of the transaction is not converted into or exchanged for or does not represent more than 50% of the aggregate voting power of the surviving or resulting entity; (ii) the direct or indirect acquisition by any person (as the term "person" is used in Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended) of more than 50% of the voting capital stock of the Company, in a single or series of related transactions; (iii) the sale, exchange, or transfer of all or substantially all of the Company's assets (other than a sale, exchange, or transfer to one or more

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entities where the stockholders of the Company immediately before such sale, exchange or transfer retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the entities to which the assets were transferred).

(d) For purposes of this Agreement, "Cause" shall mean: (i) the conviction of the Executive by a court of competent jurisdiction of, or the pleading of guilty or nolo contendere to, any felony or any crime involving moral turpitude;

(ii) gross negligence, breach of fiduciary duty or breach of any confidentiality, non-competition or developments agreement in favor of the Company; (iii) the Executive shall have willfully and continually failed to substantially perform the Executive's duties with the Company after a written demand for substantial performance is delivered by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties pursuant to the disciplinary procedures of the Company, and such failure of substantial performance shall have continued for a period of thirty (30) days after such written demand, (iv) the Executive has been chronically absent from work (excluding vacations, illnesses or leaves of absences), (iv) the commission by the Executive of an act of fraud, embezzlement or misappropriation against the Company; or (vi) the Executive shall have refused, after explicit notice, to obey any lawful resolution or direction by the Board which is consistent with his duties as an officer of the Company.

(e) For purposes of this Agreement, "Disability" means an independent medical doctor (selected by the Company's health or disability insurer) has certified that the Executive has, for six (6) months consecutive or nonconsecutive in any 12 month period been disabled in a manner that seriously interferes with his ability to perform his responsibilities as an employee of the Company. Any refusal by the Executive to submit to a medical examination for the purpose of certifying disability shall be deemed to constitute conclusive evidence of the Executive's disability.

(f) Notwithstanding anything to the contrary in this Agreement, if any portion of any payments received by the Executive from the Company (whether payable pursuant to the terms of this Agreement or any other plan, agreement or arrangement with the Company, its successors or any person whose actions result in a Change of Control of the Company) shall be subject to tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, or any successor statutory provision, the Company shall pay to the Executive such additional amounts as are necessary so that, after taking into account any tax imposed by Section 4999 (or any successor statutory provision), and any federal and state income taxes payable on any such tax, the Executive is in the same after-tax position that he would have been if Section 4999 (or any successor statutory provision) did not apply and no payments were made pursuant to this Section 3(f). All determinations to be made under this Section 3(f), including whether a gross-up payment is required and the amount of such gross-up payment, shall be made by the Company, after consultations with its tax and accounting advisors.

(g) The parties hereto expressly agree that the payments by the Company to the Executive in accordance with the terms of this Agreement will be liquidated damages, and that the Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise,

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nor shall any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive.

(h) Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the Company and any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) of the Company. The Company shall require any such successor to assume this Agreement expressly and to be bound by the provisions of this Agreement as if such successor were the Company and for purposes of this Agreement, any such successor of the Company shall be deemed to be the "Company" for all purposes.

(i) Nothing in this Agreement shall create any obligation on the part of the Company or any other person to continue the employment of the Executive, and nothing herein shall affect the Executive's obligations under any non-competition, confidentiality, option or similar agreement between the Company and the Executive currently in effect or which may be entered into in the future.

(j) All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine it must withhold pursuant to any applicable law or regulation.

(k) Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled exclusively by single-arbitrator arbitration in Boston, Massachusetts in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, and

judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(1) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts. This Agreement constitutes the entire Agreement between the Executive and the Company concerning the subject matter hereof and supercedes any prior negotiations, understandings, or agreements concerning the subject matter hereof, whether oral or written, and may be amended or rescinded only upon the written consent of the Company and the Executive. The invalidity or unenforceability of any provision of this Agreement shall not affect the other provisions of this Agreement and this Agreement shall be construed and reformed to the fullest extent possible. The Executive may not assign any of his rights or obligations under this Agreement; the rights and obligations of the Company under this Agreement shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above.

WATERS CORPORATION

By: /s/ Douglas Berthiaume

Douglas Berthiaume
Chairman and Chief Executive
Officer

THE EXECUTIVE

By: /s/ Elizabeth B. Rae

Elizabeth B. Rae

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WATERS CORPORATION AND SUBSIDIARIES
12-31-2005

Waters Corporation (Delaware)

Waters Technologies Corporation (Delaware)

Waters Australia PTY LTD. (Australia)
Waters A/S (Denmark)
Waters AG (Switzerland)
Waters NV (Belgium)
Waters Cromatografia SA (Spain)
Waters SA de CV (Mexico)
Waters Technologies do Brasil Ltda (Brazil)
Waters OY (Finland)
Waters Ges.MBH (Austria)
 Waters Kft (Hungary)
 Waters Sp.Zo.o (Poland)
Waters SA (France)
Waters GmbH (Germany)
 Waters Srl (Romania)
Waters SpA (Italy)
Waters Sverige AB (Sweden)
Waters Limited (Canada)
TA Instruments-Waters LLC (Delaware)
TA Instruments, Inc. (Delaware)
Waters France Holding Corp. (Delaware)
NuGenesis Technologies Corporation
 NuGenesis Technologies (UK) Limited
Waters Investments Limited (Delaware)
 Waters India Pvt. Ltd.(India)
 Esbee Wire Pvt. Ltd. (India)
Waters Asia Limited (Delaware)
 Waters Korea (Korea)
 Waters China Ltd. (Hong Kong)
 Waters Int'l Trading Limited (China)
Waters European Holdings LLP
 Milford International Limited
 Manchester International Limited
 MM European Holdings LLP
 Waters Finance III LLC
 Waters Luxembourg SARL
 Waters Tech. Holdings Ltd (Ireland)
 Grand Duchy Finance SARL (Lux)
 Waters Celtic Holdings Ltd (Ireland)
 Waters Tech Ireland Ltd
Nihon Waters Limited (Delaware)
 Nihon Waters K.K. (Japan)
 TA Instruments Japan, Inc. (Japan)
Microsep Proprietary Ltd (So. Africa) (24.5%)

Subsidiaries of Waters Luxembourg SARL

Micromass Holdings Ltd.

Waters Chromatography BV (Netherlands)
Waters Chromatography Europe BV (Netherlands)
Micromass Ltd. (UK)
 Waters Ltd. (UK)
 Phase Sep Ltd. (UK)
 Phase Sep Eurl (France)
 Longpure (UK)
Micromass UK Ltd. (UK)
 Micromass Investments Ltd. (UK)
 Mass Analyser Prod Ltd. (UK)
Micromass International Ltd. (UK)
 Micromass B.V. (Netherlands)
 TA Instruments Ltd. (UK)
Sandygrow Ltd. (Ireland)
 Rodolfo Holding Ltd. (Ireland)
 Milford Finance BV (Netherlands)
 Waters Chromatography Ireland Ltd. (Ireland)

* All subsidiaries are 100% owned unless otherwise indicated.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-110613, 333-92332, 333-60054, 333-81723, 333-18371) of Waters Corporation of our report dated March 6, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
March 6, 2006

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas A. Berthiaume, the Chief Executive Officer of Waters Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Waters Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 3a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ Douglas A. Berthiaume

Douglas A. Berthiaume
Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, John Ornell, the Chief Financial Officer of Waters Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Waters Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 3a-15(f) and 15d – 15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ John Ornell
John Ornell
Chief Financial Officer

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Annual Report of Waters Corporation (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas A. Berthiaume, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 6, 2006

By: /s/ Douglas A. Berthiaume
Douglas A. Berthiaume
Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Annual Report of Waters Corporation (the "Company") on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Ornell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: March 6, 2006

By: /s/ John Ornell
John Ornell
Chief Financial Officer

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