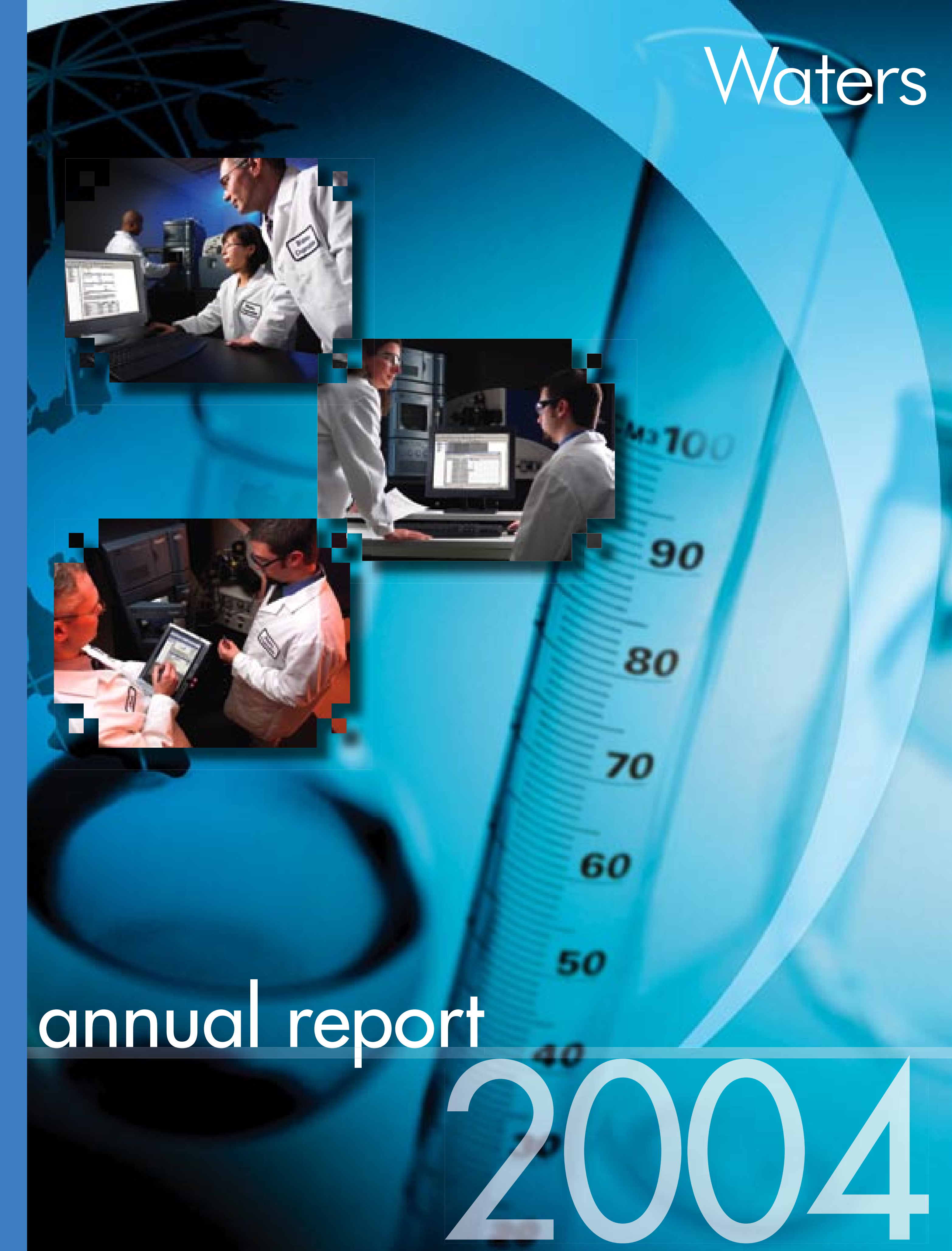
Waters
annual report
2004

Waters Corporation (NYSE:WAT) is a world leader in liquid chromatography, mass spectrometry, thermal analysis and rheometry products and services. All over the world, Waters products are used by pharmaceutical, life science, biochemical, industrial, university, and government scientists in research and development, quality assurance, and other laboratories. Our technologies and services provide these customers with fundamental data on chemical mixtures and materials. Then, by turning these analytical data into useful information, we help scientists understand the complexities of chemistry and of life itself.

2004 Shareholder Letter

I am pleased to tell you that 2004 was a very successful year for Waters Corporation. Demand from all key segments of our customer base was strong and major new product launches highlighted our performance. Reported sales grew by 15 percent and earnings per diluted share grew by 26 percent excluding business restructuring, impairments, litigation and acquisition-related charges.

Early in the year, Waters became the first company in our industry to launch a new category of liquid chromatography (LC) technology that we termed Ultra Performance LC™ or UPLC™. Based upon novel and proprietary chemistry and instrumentation, analytical chemists haven't seen an advancement like the ACQUITY UPLC™ system in more than 25 years. We are confident that the resolution, sensitivity and speed advantages of UPLC will give many scientists currently using HPLC a compelling reason to upgrade to this new technique.

ACQUITY UPLC customers are now beginning to realize how significant the impact will be on their productivity and we anticipate that many of these scientists will begin reporting on their experiences in peer-reviewed scientific journals and at major scientific conferences in 2005 and beyond. We see UPLC as a catalyst for scientific discovery and achievement and the advantages of UPLC are most dramatically apparent when the technology is coupled with mass spectrometry (MS).

In June, we introduced a research-grade mass spectrometry system, the Q-Tof Premier™. With the introduction of this instrument we have, over the last two years, reinvigorated our mass spectrometry position and now have a comprehensive line of systems and a strong competitive market position.

Our business to customers in life science, government, and industrial accounts was strong with food safety and environmental analysis applications leading the way. Our TA Instruments Division, with a heavy focus on industrial customers, finished the year with profitable double-digit sales growth.

Business growth in Asia exceeded other regions with sales growth rates in China and India more than double the Company's overall rate. In Europe, our business started the year off slowly, but strengthened throughout 2004 while United States' sales growth, led by industrial and pharmaceutical customer demand, was strong and steady.

In 2004, we continued to expand and strengthen our position in the emerging laboratory informatics market: software-based products that assist customers in organizing and archiving critical laboratory procedures and results. In the first quarter we acquired NuGenesis Technologies Corporation, an innovator and market leader in laboratory informatics and in the fourth quarter, we began shipping a very exciting product, the eLab Notebook™ software, designed to replace paper-based laboratory notebooks and offer a higher level of convenience and security to laboratory personnel.

Looking more closely at our 2004 financial results, we saw improvements in profitability associated with our continuing efforts to target high-value applications while improving our operational efficiency. Cash flow from operations was approximately $193 million, net of capital expenditures. Throughout the year, we aggressively repurchased shares of Waters stock, completing an earlier authorized $400 million buy back plan approved in 2003 and starting on a new two-year, $500 million plan that was approved by the Waters Board in October of 2004. In all, we purchased $231 million and approximately 5.5 million shares in 2004.

Moving into 2005, we anticipate continued healthy demand from our key end markets. In addition, we are confident that our recent new product introductions have strengthened our competitive position and will provide us with an opportunity to expand our market share. As we offer a broader array of application-tailored systems, we anticipate continuing to benefit from LC-MS instrument orders associated with proteomics, environmental and food safety testing, neonatal screening and therapeutic drug monitoring analyses.

In summary, the future looks bright for Waters. Our markets and key customer segments are growing and our portfolio of products – instrumentation, chemistries, and software backed by a commitment to leading customer support – are meeting laboratory needs in terms of productivity, sensitivity, and regulatory compliance. We foresee a future wherein the need for chemical and biochemical analysis will play an increasingly important role in improving living standards and complying with governmental regulations and we are committed to remaining at the technological forefront of our industry as we manage our growing and profitable business.

Sincerely,

Douglas Berthiaume

Chairman, President and Chief Executive Officer

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, 2004

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	**13-3668640**
(State or other jurisdiction of incorporation or organization)	*(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 (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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No ☐

State the aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2004: $6,754,498,394.

Indicate the number of shares outstanding of the registrant's common stock as of March 10, 2005: 117,831,688.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2005 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 associated service and support products, including chromatography columns and other consumable products. Additionally, and as a result of the acquisitions by Waters Division of Creon Lab Control AG ("Creon") in July 2003 and NuGenesis Technologies Corporation ("NuGenesis") in February 2004, the Company entered the laboratory informatics market ("Laboratory Informatics"), which consists of laboratory-to-enterprise scale software systems for managing and storing scientific information collected from a wide variety of instrument 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. The Company is also a developer of and supplier of software based products which interface with the Company's instruments and are typically purchased by customers as part of the instrument system.

The Company's products are used by pharmaceutical, life science, biochemical, industrial, academic and government customers working in research and development, quality assurance and other laboratory applications. The Company's LC instruments are utilized in this broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials as well as to purify a full range of compounds. 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.

Waters is a holding company that owns all of the outstanding common stock of Waters Technologies Corporation, its operating subsidiary. The Company previously operated as the Waters Chromatography division of Millipore Corporation, prior to a management buyout of the division that became effective on August 18, 1994. 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 Micromass Limited ("Micromass") in September 1997 and TA in May 1996.

Business Segments

The Company evaluated its business activities that are regularly reviewed by the Chief Executive Officer for which discrete financial information is available. 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. Laboratory Informatics consists of laboratory-to-enterprise scale software systems for managing and storing scientific information collected from a wide variety of LC and MS instrument test methods and is an integral product line within the Waters Division.

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.

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. HPLC's performance capabilities enable it to separate and identify 80% of all known chemicals and materials. As a result, HPLC is used to analyze substances in a wide variety of industries for research and development purposes, quality control and process engineering applications.

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 the identification of food content for nutritional labeling in the food and beverage industry, 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.

A complete HPLC system consists 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.

The primary "consumable products" for HPLC are chromatography columns. These columns are packed with separation media used in the HPLC 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 columns can be used on Waters branded as well as competitors' HPLC 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.

During 2003 and 2004, the Company experienced growth in its HPLC chromatography column and sample preparation businesses, especially in the Xterra™ and Atlantis™ columns as well as in Oasis™ sample preparation cartridges, all newly introduced in 2003. In 2004, the Company introduced a new column brand called Sunfire™.

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 HPLC instruments, chromatography columns and other consumables and related services. The Company also believes that it has the leading HPLC market share in the United States, Europe and non-Japan/Asia and believes it has a leading market share position in Japan.

Waters manufactures HPLC instruments that are offered in configurations that allow for varying degrees of automation, from Breeze™ systems for academic research applications to fully automated Alliance®2795 systems for high speed screening, and with a variety of detection technologies, from UV absorbance to MS, optimized for certain analyses. In 2003, the Company introduced new application tailored HPLC systems for the analysis of biologics as well as a new HPLC detector utilizing evaporative light scattering technology to expand the usage of HPLC to compounds that are not amenable to UV absorbance detection.

In March 2004, Waters introduced a novel HPLC-type technology that the Company described as Ultra-Performance Liquid Chromatography which utilizes a packing material with narrow 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 UPLC and the ACQUITY instrument, 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 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 UPLC and the ACQUITY instrument are an extension of HPLC, the instrument 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 system for demonstration and evaluation in the second quarter of 2004, with a normalized shipping plan, similar delivery schedules as compared to HPLC products, beginning in the third quarter of 2004.

The servicing and support of LC 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 one or two year contract that is priced according to the configuration of the instrument.

In the third quarter of 2003, Waters expanded its data management product lines through the acquisition of Creon and further enhanced its capability in this area through the acquisition of NuGenesis in the first quarter of 2004. These new Laboratory Informatics software products available for sale by the Waters Division as a result of these acquisitions expand the range of the Company's information management offerings. The Company's existing server based software products, Millenium® and Empower™, are now augmented by the addition of Creon's internet or "web" based software that enables the reporting of scientific data sourced from a broader array of instruments.

Broadly defined, Laboratory Informatics products are involved with the safe keeping and organization of laboratory procedures and experimental results. The products developed by Creon and NuGenesis are software-based systems designed to accommodate the general information archiving and retrieving needs of laboratories involved in instrumental analyses, typically within pharmaceutical, chemical and academic institutions. Customers buying these products are often using them to replace paper-based or internally developed (home grown) software-based systems that lack the capacity, security and ease of use that is either desired or required. The Company feels it has retained the development resources from the acquired companies to ensure continued leadership in this emerging market and plans to continue selling and supporting its informatics customers through the worldwide field-based resources of the Waters Division augmented by a smaller group of specialists.

In 2004, the Company introduced a new informatics 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.

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 HPLC, UPLC, chemical electrophoresis, chemical electrophoresis chromatography, gas chromatography and elemental analysis systems. 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 Waters are designed to utilize an HPLC or UPLC 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 markets worldwide. Service revenues are primarily related to the sale of parts and to billed labor associated with instrument repair and routine maintenance.

The mass spectrometer is an increasingly important detection device for HPLC and UPLC. The Company's smaller sized mass spectrometers (such as the single quadrupole ZQ™ and Waters EMD™) are often referred to as HPLC "detectors" and are either sold as part of an HPLC system or as an HPLC upgrade. Tandem quadrupole systems, such as the Waters Quattro micro™ and Quattro Ultima® 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 Ultima® instruments, are typically used to analyze the role of proteins in disease processes, an application sometimes referred to as "proteomics".

In 2003, the Company introduced two new mass spectrometry systems, the Quattro Premier™ and the LCT Premier™. The Quattro Premier is a tandem quadrupole instrument that is designed to deliver a higher level of speed, sensitivity and reliability in a more compact configuration. The LCT Premier is a 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 new 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 an HPLC or UPLC system as an inlet, a device to efficiently introduce a separated sample into the mass spectrometer.

LC-MS

Liquid chromatography (HPLC and UPLC) and mass spectrometry (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 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 characteriza-

tion 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 HPLC, a range of instrumentation is available with increasing levels of sample handling and information processing automation. In addition, systems and accompanying software packages can be tailored for specific applications. For example, the Q-Series™ family of differential scanning calorimeters includes a range of instruments from basic dedicated analyzers to more expensive systems that can accommodate robotic sample handlers and a variety of sample cells and temperature control features for analyzing a broad range of materials. In 2002, TA introduced a new dynamic mechanical analyzer ("DMA"), the Q800™ DMA. In 2003, TA introduced two new DMA's, the Q400™ DMA and the Q600™ DMA. Additionally, 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 and service revenue primarily derived from the sale of replacement parts and from billed labor expenses 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 2004 and 2003, 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 LC, MS and thermal analysis markets. Across these technologies, using respective specialized sales and service forces, the Company serves its customer base with approximately 1,990 field representatives in 89 sales offices throughout the world as of December 31, 2004 compared to approximately 1,890 field representatives in 97 sales offices as of December 31, 2003. The sales representatives have direct responsibility for account relationships, while service representatives work in the field to install instruments and minimize instrument downtime for customers. Technical support representatives work directly with customers, helping them to develop 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 and columns. The Company assembles most of its LC instruments at its facility in Milford, Massachusetts, where it performs machining, wiring, 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.

The Company manufactures its LC columns at its facilities in Taunton, Massachusetts and Wexford, Ireland, where it processes, sizes and treats silica and polymer 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 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 which both complement and update the existing product offering. The Company's research and development expenditures for 2004, 2003 and 2002 were $65.2 million, $59.2 million and $51.9 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, 2004, there were approximately 525 employees involved in the Company's research and development efforts. 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 4,200 employees, with 49% located in the United States, and 3,900 employees, with 48% located in the United States at December 31, 2004 and 2003, respectively. The increase of 8% over 2003 is primarily due to the acquisition of NuGenesis and 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, and the Company's employees are not represented by any unions. The Company believes that its future success depends, in a large part, upon its continued ability to attract and

retain highly skilled employees. During 2004, the Company 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, 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 HPLC, UPLC, 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, HAAKE and Parr-Physica. The Company is not aware of a competitor offering a UPLC system comparable to its ACQUITY instrument.

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 instrument is designed to offer a predictable level of performance when used with UPLC columns to effect the chemical separation. UPLC columns are both fluidically and electronically connected to the ACQUITY instrument to allow users to simultaneously employ and track the performance status of the UPLC column. The Company believes that the expansion of UPLC technology will enhance its chromatographic column business because of the high level of synergy between UPLC 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. 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 450 Fifth Street, N.W., 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 (i) changes in the HPLC, UPLC, MS and thermal analysis portions of the analytical instrument marketplace as a result of economic or regulatory influences, (ii) general changes in the economy or marketplace including currency fluctuations, in particular with regard to the Euro, British pound and Japanese yen, (iii) changes in the competitive marketplace, including obsolescence resulting from the introduction of technically advanced new products and pricing changes by the Company's competitors, (iv) the ability of the Company to generate increased sales and profitability from new product introductions, (v) the reduction in capital spending of pharmaceutical customers, (vi) the loss of intellectual property rights in the Company's research and development efforts, 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.

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 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 market may, from time to time, experience low sales growth. Approximately 53% of the Company's net sales in 2004 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 HPLC and UPLC 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 64% of the Company's 2004 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 HPLC, UPLC, 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. 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 2: *Properties*

Waters operates 20 United States facilities and 74 international facilities, including field offices. In 2004, the Company purchased a 250,000 square foot building adjacent to the Company's headquarters. The Company intends to use this building to consolidate certain functions and facilities in Massachusetts in 2005. 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

Location	Function (1)	Owned/Leased	Square Feet (000's)
Franklin, MA	D	Leased	30
Milford, MA	M, R, S, A	Owned	747
Taunton, MA	M	Owned	32
Westborough, MA	R, S, A	Leased	35 (2)
Etten-Leur, Netherlands	S, D, A	Leased	36
St. Quentin, France	S, A	Leased	60
Singapore	S, A	Leased	6
Tokyo, Japan	S, A	Leased	28
Wexford, Ireland	M, R, S	Owned/Leased	48
New Castle, DE	M, R, S, D, A	Leased	86
Crawley, England	M, R, S, D, A	Leased	14
Beverly, MA	S, A	Leased	77
Cheshire, England	M, R, D	Leased	29
Manchester, England	M, R, S, D, A	Leased	104
Almere, Netherlands	S, A	Leased	16
Romania	R, A	Leased	9

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

(2) The Westborough, MA facility was added as a result of the NuGenesis acquisition. This facility will be closed upon expiration of its lease term in June 2005.

The Company operates and maintains 13 field offices in the United States and 62 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 (3)

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

(3) 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, have brought an action alleging that certain features of the Alliance pump may infringe the HP patents. In England, the Court of Appeal has 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 on June 8, 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, the UK court ruled in the new action that the Company did not infringe the HP patents. HP has filed an appeal in that action and the damages trial scheduled for March 2005 has been postponed pending this appeal and rescheduled for November 2005. 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 on April 12, 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. HP is seeking an appeal in that action. The Company recorded provisions in the quarters ended June 30, 2002 and April 3, 2004 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 has appealed the judgment. The Company believes it should prevail on appeal and, in any event, that any outcome of the proceedings will not be material to the Company.

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

None.

PART II

Item 5: *Market for Registrant's Common Equity, 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 March 10, 2005, the Company had approximately 279 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 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	Price Range Low
March 29, 2003	$24.50	$19.79
June 28, 2003	31.05	20.26
September 27, 2003	32.35	26.33
December 31, 2003	33.42	26.58
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

The following table provides information about purchases by the Company during the three months ended December 31, 2004 of equity securities registered by the Company pursuant to the Exchange Act (in thousands, except per share data):

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	(d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs (3)
October 3 to 30, 2004	50	$40.58	50	$497,971
October 31 to November 27, 2004	925	44.88	925	456,458
November 28 to December 31, 2004	271	47.10	271	443,709
Total	1,246	$45.19	1,246	$443,709

(1) The Company purchased an aggregate of 1,246 shares of its common stock in open market transactions pursuant to a repurchase program (the "Program") that was announced on October 25, 2004.

(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, 2006.

(3) The approximate dollar value of shares that may yet be purchased under the Program was $443.7 million at December 31, 2004.

Item 6: ***Selected Financial Data***

Reference is made to information contained in the section entitled "Selected Financial Data" on page 76 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***

Business and Financial Overview:

The Company's business in 2004 continued to benefit from stable pharmaceutical customer demand, improved industrial chemical customer demand and the impact of new product initiatives. Sales grew by 15% in 2004 and by 8% in 2003. Excluding currency effects, sales grew by 11% in 2004 and were flat in 2003. Geographically, business was strongest in the U.S., Japan, and Asia, particularly India and China, while trending positively in Europe during the second half of the year. Growth in these geographies was across all of the Company's product lines and in particular mass spectrometry ("MS") products and ACQUITY UPLC™ systems, which accelerated sales in the second-half of the year.

From a product line perspective and excluding the impact of currency translation, the Waters Division liquid chromatography products ("LC") — including high performance liquid chromatography ("HPLC") and Ultra Performance Liquid Chromatography ("UPLC") — grew approximately 9% in 2004 and benefited from shipment of the ACQUITY systems, growth in LC service revenues of 13% and growth in LC chemical products of 10%. In mass spectrometry, sales grew approximately 6% in 2004, as initial shipments of the Q-T of Premier™ augmented the full-year performance of tandem quadrupole instrument sales. As a result of the acquisition of Creon Lab Control AG ("Creon") in July 2003 and NuGenesis Technologies Corporation ("NuGenesis") in February 2004, the Waters Division entered the laboratory informatics market ("Laboratory Informatics"). Laboratory Informatics products and service added approximately 2% to the Company's sales growth in 2004. The Thermal Analysis Division ("TA") sales grew approximately 11% in 2004, benefiting from overall stronger industrial chemical customer demand, recent new product introductions and from the expansion of the business into overseas markets.

Operating income was $284.9 million and $219.2 million in 2004 and 2003, respectively, an increase of $65.7 million or 30% for the year. In 2004, operating income included the benefit of a litigation judgment in the amount of $17.1 million from Perkin-Elmer Corporation offset by litigation provisions of $7.8 million and

a technology license asset impairment of $4.0 million. In 2003, operating income included expensed in-process research and development of $6.0 million, a loss on sale of a business of $5.0 million, restructuring charges of $0.9 million and litigation provisions of $1.5 million. The remaining increase in operating income of $47.0 million is primarily a result of sales volume growth, reductions in manufacturing costs, operating expense leverage, and the effects of currency translations.

Operating cash flow increased to $259.4 million in 2004 compared to $157.0 million in 2003. The increase of $102.4 million for the year is primarily attributable to the increase in net income and a decrease in the change of accrued litigation from $60.1 million in 2003 to $16.1 million in 2004 primarily related to the Applera patent litigation. In addition, the Company received $17.1 million in 2004 related to the Perkin-Elmer Corporation patent litigation judgment. Capital expenditures related to property, plant, equipment, software capitalization and other intangibles were $66.2 million in 2004 compared to $34.6 million in 2003. During 2004, the Company purchased a 250,000 square foot building adjacent to the Company's headquarters for $18.1 million. The Company intends to use this building to consolidate certain functions and facilities in Massachusetts in 2005 and spent an additional $3.2 million in 2004 to prepare the building for its intended use.

In June 2004, the Company effectively concluded its $400.0 million stock buyback program previously announced in May 2003. The Company repurchased approximately 11.8 million shares under this program. In October 2004, the Company's Board of Directors authorized the Company to repurchase up to $500.0 million in outstanding common shares over a two-year period. The Company believes that the share repurchase program is beneficial to shareholders by increasing earnings per share through reducing the outstanding shares and has financial flexibility to fund these share repurchases given current cash and debt levels. In 2004, the Company repurchased a total of 5.5 million shares of its common stock for $231.3 million, of which 1.2 million shares were purchased under the October 2004 program for $56.3 million. This follows a 2003 repurchase of a total 11.9 million shares of common stock for $324.6 million.

In December 2004, the Company terminated its existing credit agreement early without penalty and entered into a new Credit Agreement ("Credit Agreement") with a syndicate of banks, many of which participated in the prior credit agreement. The new Credit Agreement increases the Company's borrowing capacity from $375.0 million to $700.0 million and provides for lower borrowing costs and less restrictive covenants. The Company believes that this additional borrowing capacity will provide the Company the flexibility to fund working capital needs, potential acquisitions and stock repurchases. The Company had outstanding borrowings at the end of 2004 of $456.7 million, primarily relating to borrowings in the U.S. under the Company's new Credit Agreement.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003
(The Company has included references to the Notes of the Company's Consolidated Financial Statements included in Item 8 below.)

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 approxi-

mately 9%. The growth in LC instrument sales in 2004 was 7%. This growth was due principally to the introduction of new products, such as the ACQUITY UPLC instrument, and steady demand for existing instruments. 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. LC service sales grew 13% over 2003 due to increased sales of service plans to the Company's growing installed base of customers. For the LC business, service revenue was approximately 28% of total LC revenue in 2004. The growth of LC service revenue 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 19% of overall LC sales.

MS sales grew approximately 6% 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 18% 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. Service revenue for the MS product line accounted for approximately 19% of total MS revenue in 2004 and 2003, and grew approximately 12% in 2004 due to increased sales of service plans to the Company's growing installed base of customers.

The Laboratory Informatics product line was expanded in 2004 with the acquisition of NuGenesis in the first quarter. In 2003, the Laboratory Informatics product and service offerings consisted of those from Creon, a company that Waters acquired in 2003. In 2004, Laboratory Informatics sales added approximately 2% to sales growth. Revenues consisted of new product sales as well as revenue associated with the servicing of the user base.

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 27% and 14%. respectively. Sales in the U.S. grew 12% while Europe experienced a modest 1% 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 revenues grew 11% in 2004 (excluding the effects of currency translation). The growth of this business was influenced by strong sales growth of 16% outside of the U.S., primarily from Europe 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 revenue was 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 the Laboratory Informatics acquisition; 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 Laboratory Informatics 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 the Laboratory Informatics acquisitions.

Litigation Settlement and Provisions:
Net litigation settlements and provisions for 2004 were a $9.3 million 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 (Note 13).

Loss on Sale of Business:
The Company recorded a $5.0 million charge relating to the loss on the sale (Note 8) 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.

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

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

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.

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

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

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, 2004 and 2002.

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. As of December 31, 2004, the IPR&D automatic LC-MS dereplication system project still had not reached technological feasibility. The expected remaining cost to complete this project is not considered material to the Company and there are currently no expected material variations between projected results from the projects versus those at the time of the acquisition. The Company expects the project to be completed within the next twelve months.

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 (Note 5). The 2004 pre-tax 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 (Note 10).

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.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

(The Company has included references to the Notes of the Company's Consolidated Financial Statements included in Item 8 below.)

Net Sales:
Net sales for 2003 were $958.2 million, an increase of 8% compared to $890.0 million for 2002. Excluding the favorable currency effects, net sales remained essentially flat over 2002. In 2003, product sales increased $25.9 million or 4% and service sales increased $42.4 million or 22% over sales in 2002.

With respect to the Company's performance by product line (excluding the effects of currency translation), LC sales overall grew approximately 5%. In 2003, LC chemistry grew 11% primarily as a result of continued strength in sales related to pharmaceutical production. LC service sales grew 14% over 2002 due to increased sales of service plans to our growing installed base of customers. Growth in chemistry and service were offset by a decline of 1% in instrument sales during 2003. The decline in instrument sales is largely attributable to a combination of postponements and delays in purchase decisions for such instruments by the Company's customers for new and replacement products. For the LC business, service revenue was approximately 27% of total LC revenue in 2003 compared to 25% of revenue in 2002. The growth of service revenue was geographically broad-based and was driven by increased demand from large multi-national customers for service plans to maintain a higher percentage of their installed base and newly purchased Waters instruments. Chromatography consumables account for approximately 19% of overall LC sales and grew by approximately 11% in 2003. Chromatography consumable growth was driven by increased utilization of existing LC equipment and by the successful launch of a new line of chromatography columns and sample preparation devices. Geographically, the strongest growth areas of the world for LC in 2003 were Asia, Japan and Eastern Europe, achieving 16%, 10% and 40% growth, respectively. The U.S. grew modestly at 2%, while Europe experienced a decline of 4%. Sales growth in Asian and Eastern European geographies is related to economic modernization and development of basic infrastructure. Japan continues to be a robust market as Waters continues to offer Japanese language software products that meet local needs. Markets in the U.S. and Europe languished in 2003 as we saw a continuation of delays in instrument replacements early in the year at many of our pharmaceutical customers.

MS sales declined approximately 18% in 2003, excluding the impact of the sale of the inorganic product line. The decline in sales over 2002 was across most geographic areas, primarily due to the impact of the Applera patent litigation, reduced MS instrument prices and a decline in pharmaceutical capital spending. Sales to customers working on proteomics applications in the pharmaceutical industry, government and academic sector and biotech all experienced declines in instrument purchases in 2003. The Company believes that its sales decline is a result of a temporary market decline in 2003 as well as a loss of market share to competing technologies that resulted in the overall 18% sales decline in MS. Service revenue for the MS product line accounted for approximately 19% of total MS revenue in 2003 compared to 12% in 2002, and grew approximately 27% during this period. The growth in MS service revenue as a percentage of overall MS revenue was primarily due to the decline in MS instrument revenue, which is attributed to reduced demand from proteomics customers.

Sales for thermal analysis products grew 20% in 2003, excluding the impact of the acquired rheometry business. The growth of this business is geographically broad-based with increased spending by core industrial chemical and pharmaceutical companies. The impact of sales in 2003 from the rheometry business acquisition added an additional 16% to the thermal analysis business growth. TA service revenue was approximately 26% of total TA revenue. Compared to 2002, TA service revenue grew by approximately 41% primarily as a result of providing service to a larger installed base of instruments and the Rheometrics acquisition.

Gross Profit:
Gross profit for 2003 was $560.4 million compared to $516.5 million for 2002, an increase of $43.9 million or 8%. Gross profit as a percentage of sales increased to 58.5% in 2003 from 58.0% in 2002. The increase in gross profit of 8% is generally linear with the net sales increase of 8%, which is mostly attributed to favorable foreign exchange in 2003.

Selling and Administrative Expenses:
Selling and administrative expenses for 2003 and 2002 were $264.3 million and $246.8 million, respectively. As a percentage of net sales, selling and administrative expenses remained relatively flat at 27.6% for 2003 compared to 27.7% for 2002. The $17.4 million or 7% increase in total selling and administrative expenses for 2003 included an increase of approximately $17.7 million as a result of currency translation, offset by a reduction in operating expenses of $0.3 million. The reduction in operating expenses includes cost savings of $4.5 million from the recently completed LC and MS field sales and service integration efforts, generating lower headcount and labor costs, associated fringe benefits and travel costs. These reductions were offset by annual merit increases across most divisions and other headcount additions and related fringe benefits and indirect costs associated with the 2003 acquisitions totaling approximately $4.2 million. The Company experienced realized and unrealized foreign currency transaction gains of approximately $2.2 million in 2003 compared to losses of $0.8 million in 2002, an increase of $3.0 million.

Research and Development Expenses:
Research and development expenses were $59.2 million for 2003 and $51.9 million for 2002, an increase of $7.3 million or 14%. The increase is primarily attributable to an increase in headcount due to acquisitions, specifically Creon and Rheometrics, and to the Company's continued commitment to invest significantly in the development of new and improved LC, MS, thermal analysis and rheometry products. In addition, the Company incurred contract research and development costs of $1.8 million related to new product development efforts for the Q-Tof product line.

Purchased Intangibles Amortization:
Purchased intangibles amortization for 2003 was $4.2 million compared to $3.6 million for 2002, an increase of $0.6 million or 18%. The increase primarily relates to amortization associated with the intangible assets purchased as part of the Rheometrics and Creon acquisitions.

Litigation Provisions:
Litigation provision for 2003 was $1.5 million compared to $7.9 million for 2002. The Company recorded $1.5 million and $5.1 million in 2003 and 2002, respectively, relating to an environmental matter concerning the Company's Taunton facility (Note 13). In 2002, the Company recorded $2.8 million for the Applera patent litigation for liabilities associated with product sales made prior to the day of the unfavorable jury's verdict in March 2002 (Note 12).

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 2002 (Note 8).

Impairment of Long-Lived Asset:
In 2002, the Company recorded a $2.4 million charge for an other-than-temporary impairment of its technology license with Variagenics, as the technology collaboration program was discontinued (Note 5). There was no such charge in 2003.

Restructuring and Other Unusual Charges, net:
The Company recorded $2.6 million in 2003 and $7.4 million in 2002 for restructuring and other directly related incremental costs relating to its integration of the worldwide LC and MS sales, service, manufacturing and support organizations. The charge in 2003 includes severance costs for 13 people, distributor terminations and other directly related incremental costs of this integration effort. The charge in 2002 includes severance

costs for 42 people, contract cancellation fees, non-cancelable lease obligations and other directly related incremental costs.

During 2003, the Company reversed approximately $1.9 million in restructuring reserves, primarily attributable to distribution and facility settlements being less than previously estimated and the retention of certain employees previously selected for employment termination. There were no such reversals in 2002.

The Company has included in the consolidated balance sheet in other long-term liabilities approximately $1.5 million and $1.8 million at December 31, 2003 and 2002, respectively, for non-cancelable lease obligations with a portion to be paid out extending to 2012. The remaining $1.1 million and $3.7 million of the liability is included in other current liabilities in the consolidated balance sheet at December 31, 2003 and 2002, respectively.

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

	Balance December 31, 2002	Charges	Utilization	Reserve Reversals	Balance December 31, 2003
Severance	$1,655	$1,553	$(2,672)	$ (505)	$ 31
Facilities	2,388	—	(60)	(391)	1,937
Distributor terminations	1,350	400	(325)	(950)	475
Other	78	661	(568)	(8)	163
Total	$5,471	$2,614	$(3,625)	$(1,854)	$2,606

The amount of expected annual cost savings is approximately $6.0 million. The Company began realizing savings of approximately $1.5 million per quarter beginning in the second quarter of 2003. The Company believes that there were no material increases in other expenses or reductions in revenues as a result of this restructuring. The annual cost savings is comprised of head count reductions of approximately $4.2 million, reductions in related travel, promotional and other expenses of approximately $1.6 million and facility closures of approximately $0.2 million.

The Company also recorded an unrelated restructuring provision of $0.1 million at its TA subsidiary for severance and other related costs in 2003. There were no such charges in 2002.

Expensed In-Process Research and Development:
See Expensed In-Process Research and Development herein under the Year Ended December 31, 2004 Compared to Year Ended December 31, 2003 discussion.

Other Income (Expense), Net:
In 2003 and 2002, the Company recorded $0.3 million and $6.0 million, respectively, in pre-tax charges for other-than-temporary impairments to the carrying amounts of certain equity investments, including investments in GeneProt and Variagenics (Note 5). During 2002, the Company recorded a $1.0 million charge to other income (expense), in the consolidated statements of operations, for an other-than-temporary impairment of the equity investment and warrants resulting from Variagenics public stock price declines. In addition, in 2002, the Company recorded pre-tax charges of $12.6 million to other income (expense) for an other-than-temporary impairment of its investment in GeneProt. This charge was recorded because to the Company's knowledge, GeneProt had been unable to generate enough commercial interest to expand its business in the U.S. market. Additionally, during 2003 and 2002, the Company recorded a $0.3 million and $0.1 million charge, respectively, to other income (expense) for the impairment of certain other equity investments. The impairment charges in 2002 were offset by a $7.7 million termination fee received from GeneProt for cancellation of its $20.0 million order. There were no such off-setting charges in 2003.

Interest Expense:
Interest expense was $2.4 million and $2.5 million for 2003 and 2002, respectively. Total interest expense in 2003 was offset by a $0.9 million reduction in an interest expense estimate relating to the calculation of interest expense for the Applera litigation paid in April 2003 (Note 12). Excluding this reduction, interest expense for 2003 would have been $3.3 million, or an increase of 32%. This increase primarily relates to interest expense on borrowings against the Company's credit facility to fund the stock repurchase program (Note 10). In 2002, the interest expense primarily related to accrued post-judgment interest associated with the Applera litigation.

Interest Income:
Interest income for 2003 and 2002 was $7.1 million and $7.5 million, respectively. The decline in interest income is primarily due to lower yields on cash investments.

Provision for Income Taxes:
The Company's effective income tax rate was 23.6% in 2003 and 22.1% in 2002. The 2003 effective tax rate increased primarily due to lower effective tax rates on special charges and the expensed in-process research and development charge related to the Creon acquisition of $6.0 million not being tax deductible under German statutory law.

Cumulative Effect of Change in Accounting Principle:
In 2002, the method of accounting for patent related costs associated with patent litigation was changed effective January 1, 2002 from a method of capitalizing the patent related costs and amortizing them over their estimated remaining economic life to expensing the costs as incurred. The Company believes that this change is preferable because it will provide a better comparison with the Company's industry peers, the majority of which expense these costs as incurred. The $4.5 million cumulative effect of the change on prior years (after reduction for income taxes of $1.3 million) is included as a charge to net income for 2002. There were no such charges for 2003.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flows (in thousands):

	Year Ended December 31,	
	2004	2003
Net income	$ 224,053	$170,891
Depreciation and amortization	41,926	33,848
Tax benefit related to stock option plans	32,012	17,582
Change in accounts receivable	(36,453)	11,973
Change in inventories	(11,575)	(4,302)
Change in accounts payable and other current liabilities	12,203	(30,005)
Change in accrued litigation	(16,095)	(60,120)
Other changes in operating activities	13,378	17,138
Net cash provided by operating activities	259,449	157,005
Net cash used in investing activities	(108,605)	(18,663)
Net cash provided by (used in) financing activities	21,507	(63,640)
Effect of exchange rate changes on cash and cash equivalents	9,945	18,767
Increase in cash and cash equivalents	$ 182,296	$ 93,469

Net cash provided from operating activities was $259.4 million and $157.0 million in 2004 and 2003, respectively. The primary sources of net cash provided from operating activities were net income, the effect of depreciation and amortization, and the increase in the tax benefit related to stock option plans from stock

options exercised. Included in net income for 2004 was $17.1 million in proceeds for the Perkin-Elmer litigation judgment. Depreciation and amortization increased in 2004 primarily from the increase in capital spending, higher software capitalization amortization and the effect of the Laboratory Informatics acquisitions. Days-sales-outstanding ("DSO") increased by 5 days to 76 days in 2004 from 71 days in 2003. The increase in accounts receivable and DSO are directly related to the timing of the Company's sales within the quarter, and foreign currency translation. The increase in inventory at December 31, 2004 is related to the development of new products, primarily the ACQUITY UPLC and the Q-Tof Premier.

The changes in accounts payable and other current liabilities are primarily related to the timing of payments of income tax, compensation, and retirement accruals. Accrued litigation decreased by $16.1 million primarily due to the $18.1 million payment to Applied Biosystems/MDS Sciex Instruments for the settlement of a patent litigation matter and approximately $4.1 million of payments in connection with the Hewlett-Packard patent litigation matter, offset by a $7.8 million provision for the Hewlett-Packard patent litigation in 2004. The remaining change in accrued litigation is attributed to payment of legal fees directly associated with existing litigation accruals.

Net cash used in investing activities totaled $108.6 million in 2004 compared to $18.7 million in 2003. Additions to fixed assets and intangible assets were $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 for $18.1 million as well as approximately $3.2 million of costs in construction in-progress related to improvements made to the building. The Company intends to use this building to consolidate certain functions and facilities in Massachusetts in 2005 and to accommodate growth over the next several years. 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. Business acquisitions were $42.4 million and $35.2 million in 2004 and 2003, respectively, as the Company continues to seek growth opportunities through acquisitions. Included in 2003 was approximately $49.9 million of cash provided by a decrease in restricted cash. The Company held approximately $49.9 million of restricted cash at December 31, 2002 in connection with the standby letter of credit issued by the Company in 2002 for the unfavorable judgment in the Applera patent litigation. Due to the March 2003 affirmed judgment in the case, the Company paid $53.7 million to Applera in April 2003. As a result of that payment, the Company will no longer be required to maintain a restricted cash balance.

Regarding cash provided by (used in) financing activities, the Company repurchased 5.5 million and 11.9 million common stock shares at a cost of $231.3 million and $324.6 million, during 2004 and 2003, respectively. In October 2004, the Company's Board of Directors authorized the Company to repurchase up to $500.0 million in outstanding common shares over a two-year period. The Company believes that the share repurchase program is beneficial to shareholders by increasing earnings per share via reducing the outstanding shares through open market purchases and that it has adequate financial flexibility to fund these share repurchases given current cash and debt levels. During 2004, the Company purchased 1.2 million shares at a cost of $56.3 million under the October 2004 Board of Directors authorized repurchase program and 4.3 million shares at a cost of approximately $175.0 million under a previously authorized program under which the Company has purchased the maximum amount of authorized shares. The Company believes it has the resources to fund the common stock repurchases as well as to pursue acquisition opportunities in the future. The Company received $45.0 million and $27.8 million of proceeds from other financing activities, including the exercise of stock options and the purchase of shares pursuant to employee stock purchase plans in 2004 and 2003, respectively.

In December 2004, the Company entered into a Credit Agreement (the "Credit Agreement") to replace its existing credit facility. The Credit Agreement provides for a $250.0 million term loan facility, a $300.0 million revolving facility ("US Tranche"), and a $150.0 million revolving facility ("European Tranche"). The term loan facility and the revolving facilities both mature on December 15, 2009, and require no scheduled prepayments before that date. At December 31, 2004, the Company had $250.0 million outstanding under the term loan facility which is classified as long-term debt and $190.0 million outstanding under the US Tranche revolving facility. The Company terminated its existing credit agreement early without penalty. The interest rates applicable to the term loan and revolving loans under the new credit agreement are

equal to either the base rate (which is the higher of the prime rate or the federal funds rate plus 1/2%) or the applicable 1, 2, 3, 6, 9 or 12 month LIBOR rate, in each case plus an interest rate margin based upon the Company's leverage ratio, which can range between 29.5 basis points and 80.0 basis points. The Credit Agreement is unsecured in nature, and requires that the Company comply with an interest coverage ratio test of not less than 3.5:1, and a leverage ratio test of not more than 3:1, for any period of four consecutive fiscal quarters, respectively. The minimum interest coverage ratio on the terminated agreement was 5:1 and the maximum leverage ratio test was 2.5:1. In addition, the new credit agreement includes negative covenants that are customary for investment grade credit facilities. The new credit agreement also contains certain customary representations and warranties, affirmative covenants and events of default. The new Credit Agreement increased the Company's committed syndicated borrowing capacity from $375.0 million to $700.0 million and provides for lower borrowing costs. The additional borrowing capacity will provide the Company the flexibility to fund working capital needs, potential acquisitions and stock repurchases.

The Company believes that the cash and cash equivalent balance of $539.1 million at the end of 2004 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 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 beyond the next twelve months.

In October 2004, the American Jobs Creation Act of 2004 ("AJCA") was signed into law. The AJCA contains a series of provisions, several of which are pertinent to the Company. 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 has been the Company's practice to permanently reinvest all foreign earnings into foreign operations and the Company currently still plans to continue to reinvest foreign earnings permanently into its foreign operations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions of the AJCA. As such, the Company is not yet in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. Should the Company determine that it plans to repatriate any foreign earnings, it will be required to establish an income tax expense and related tax liability on such earnings. If the Company elects this provision before it expires at the end of 2005, the Company could repatriate a maximum of $500.0 million in qualified foreign earnings. If the maximum was repatriated, the Company estimates an increase in the income tax provision of between $20.0 million and $45.0 million depending on the final technical clarifications.

Commitments:

The Company licenses certain technology and software from third parties, which expire at various dates through 2008. Fees paid for licenses were approximately $1.1 million in 2004, $2.9 million in 2003 and $5.4 million in 2002. Future minimum licenses payable under existing license agreements as of December 31, 2004 are immaterial.

Contractual Obligations and Commercial Commitments

The following is a summary of the Company's commitments as of December 31, 2004 (in thousands):

	Payments Due by Year					
Contractual Obligations	**Total**	**2005**	**2006**	**2007**	**2008**	**After 2008**
Long-term debt	$250,000	$ —	$ —	$ —	$ —	$250,000
Operating leases	85,105	17,520	13,349	10,529	8,297	35,410
Other long-term liabilities	527	527	—	—	—	—
Total	$335,632	$18,047	$13,349	$10,529	$8,297	$285,410

Other Commercial Commitments	Amount of Commitments Expiration Per Period Total	2005	2006	2007	2008	After 2008
Letters of credit	$ 3,222	$ 3,222	$ —	$ —	$ —	$ —

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, Patent Litigation, will not be material to the financial position or results of operations.

During fiscal year 2005, the Company expects to contribute approximately $7.5 million to the Company's retirement plans. Capital expenditures are expected to be modestly higher in 2005, excluding the recent building purchase, due to expected capital needs 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 the new credit facility, its real estate leases, and supplier and collaborative agreements that would 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.

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. 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.

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, 2004, the Company had current and long-term deferred revenue liabilities of approximately $66.8 million and $7.3 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, 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 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.

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, 2004 was $271.7 million, net of allowances for doubtful accounts and sales returns of $7.1 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, 2004 was $139.9 million, net of write-downs to net realizable value of $14.1 million.

Valuation of Equity Investments:
The Company holds minority equity interests in companies having operations or technology in areas within its strategic focus, some of which are publicly traded and have highly volatile share prices. For investments where a company is not publicly traded, the Company obtains and reviews quarterly and annual financial statements and progress of technological expectations. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other-than-temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. In 2004 and 2003, the Company recorded $1.0 million and $0.3 million charges to other expense, respectively, in the consolidated statements of operations, for the impairment of certain equity investments. At December 31, 2004, the Company had equity investments totaling $17.9 million included in other assets on the balance sheet.

Long-Lived Assets, Intangible Assets and Goodwill:
The Company assesses the impairment of identifiable intangibles, long-lived assets and related 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 related 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 $85.2 million, $135.9 million, and $228.5 million, respectively, as of December 31, 2004. The Company performs annual impairment reviews of its goodwill. The Company performed its annual review during 2004 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, 2004, the Company's warranty liability was $10.6 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 realized significant income tax benefits associated with the exercise of its nonqualified stock options. The corresponding credit was to additional paid-in-capital. Because of the outstanding stock options, the Company believes that it is more likely than not that the U.S. deferred tax assets will not be realized. Therefore, a valuation allowance has reduced to zero all the deferred tax assets relating to U.S. income. In the future event there is U.S. taxable income, the valuation allowance would be reversed and deferred tax assets recorded with a corresponding credit to additional paid-in-capital.

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%.

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. This rate should be in line with rates for high quality fixed income investments available for the period to maturity of the pension benefits, and changes as long-term interest rates change. At year-end 2004, the Company determined this rate to be 5.75%. 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."

Recent Accounting Standards Changes

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payments", 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 interim periods beginning after June 15, 2005. The final standard allows alternative methods for determining fair value. At the present time, the Company has not determined which valuation method it will use; however, under the Black-Scholes valuation model, it is estimated that the pre-tax compensation expense recorded in the consolidated statements of operations for the second half of 2005 would be approximately $14.5 million.

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. At the present time, the Company does not believe that adoption of SFAS 153 will have a material effect on its 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 is evaluating SFAS 151 but does not believe that it will have a material effect on its financial position, results of operations or cash flows.

In October 2004, the American Jobs Creation Act of 2004 ("AJCA") was signed into law. The AJCA contains a series of provisions, several of which are pertinent to the Company. 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 has been the Company's practice to permanently reinvest all foreign earnings into foreign operations and the Company currently still plans to continue to reinvest foreign earnings permanently into its foreign operations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions of the AJCA. As such, the Company is not yet in a position to decide on whether, and to what extent, the Company might repatriate foreign earnings that have not yet been remitted to the U.S. Should the Company determine that it plans to repatriate any foreign earnings, it will be required to establish an income tax expense and related tax liability on such earnings. If the Company elects this provision before it expires at the end of 2005, the Company could repatriate a maximum of $500.0 million in qualified foreign earnings. If

the maximum was repatriated, the Company estimates an increase in the income tax provision of between $20.0 million and $45.0 million depending on the final technical clarifications.

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. Further information regarding the Company's accounting policies for financial instruments and disclosures of financial instruments can be found in Notes 2 and 10 to the Company's consolidated financial statements.

The Company is primarily exposed to currency exchange-rate risk with respect to certain inter-company balances, forecasted transactions 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.

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 re-classified to earnings in 2004 was $0.7 million. The remaining $0.9 million will be re-classified to earnings in 2005 over the original term of the interest rate swap. As of December 31, 2004, the Company had no outstanding cash flow hedges.

Hedges of Net Investments in Foreign Operations

The Company has operations in various countries and currencies throughout the world, with approximately 31% of its sales denominated in Euros, 11% in Yen and smaller sales exposures in other currencies. 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 2004, the Company hedged its net investment in Yen foreign affiliates with cross-currency interest rate swaps, with notional values ranging from approximately $25.0 million to approximately $37.0 million. At December 31, 2004 and 2003, the notional amounts of outstanding contracts were approximately $37.0 million and $25.0 million, respectively. For the year ended December 31, 2004, the Company recorded cumulative net pre-tax losses of $2.4 million in accumulated other comprehensive income, which consisted of realized losses

of $1.6 million relating to closed cross-currency interest rate swap agreements and unrealized losses of $0.8 million relating to the 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 consisted of realized gains of $1.3 million and unrealized gains of $0.3 million. For the year ended December 31, 2002, the Company recorded cumulative net pre-tax losses of $1.0 million in accumulated other comprehensive income, which consisted of realized losses of $1.4 million and unrealized gains of $0.4 million.

During 2004, the Company hedged its net investment in British pound foreign affiliates with forward foreign exchange contracts in British pounds. 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 consisted 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 British pounds 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. For the year ended December 31, 2002, the Company recorded unrealized gains of $0.3 million in accumulated other comprehensive income relating to forward foreign exchange contracts in British pounds.

During 2004, the Company hedged its net investment in British pound foreign affiliates with range forward agreements in British pounds. Under the terms of the agreement 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. 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. As of December 31, 2004, the Company had no open range forward agreements 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 and foreign exchange contracts agreements, designated as hedges of net investment in foreign operations, as of December 31, 2004, would decrease accumulated other comprehensive income by approximately $12.3 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 statement of operations. At December 31, 2004 and December 31, 2003, the Company held forward foreign exchange contracts with notional amounts totaling approximately $62.9 million and $32.0 million, respectively.

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, designated as fair value hedges, as of December 31, 2004 would decrease earnings by approximately $6.3 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***

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Waters Corporation:

We have completed an integrated audit of Waters Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 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 and financial statement schedule

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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule at Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for patent related costs in 2002.

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 9a, that the Company maintained effective internal control over financial reporting as of December 31, 2004 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, 2004, 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.

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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 15, 2005

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	December 31, 2003
	(In thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 539,077	$ 356,781
Accounts receivable, less allowances for doubtful accounts and sales returns of $7,100 and $5,638 at December 31, 2004 and 2003, respectively	271,731	214,260
Inventories	139,900	128,810
Other current assets	23,176	18,505
Total current assets	973,884	718,356
Property, plant and equipment, net	135,908	108,162
Intangible assets, net	85,249	72,164
Goodwill	228,537	197,417
Other assets	36,848	34,762
Total assets	$1,460,426	$1,130,861
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and debt	$ 206,663	$ 121,309
Accounts payable	46,180	43,884
Accrued employee compensation	33,709	19,802
Deferred revenue and customer advances	66,783	55,923
Accrued retirement plan contributions	10,655	14,025
Accrued income taxes	49,120	42,638
Accrued other taxes	12,547	8,255
Accrued warranty	10,565	11,051
Accrued litigation	4,652	20,747
Other current liabilities	52,116	40,887
Total current liabilities	492,990	378,521
Long-term liabilities:		
Long-term debt	250,000	125,000
Long-term portion of post retirement benefits	30,980	28,863
Other long-term liabilities	7,770	8,000
Total long-term liabilities	288,750	161,863
Total liabilities	781,740	540,384
Commitments and contingencies (Notes 10, 12, 13, 15 and 19)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 4,000 shares authorized, none issued at December 31, 2004 and 2003	—	—
Common stock, par value $0.01 per share, 400,000 shares authorized, 141,367 and 136,708 shares issued (including treasury shares) at December 31, 2004 and 2003, respectively	1,414	1,367
Additional paid-in capital	366,224	289,046
Retained earnings	902,582	678,529
Treasury stock, at cost, 21,532 and 16,017 shares at December 31, 2004 and 2003, respectively	(655,161)	(423,874)
Deferred compensation	(157)	—
Accumulated other comprehensive income	63,784	45,409
Total stockholders' equity	678,686	590,477
Total liabilities and stockholders' equity	$1,460,426	$1,130,861

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

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
	(In thousands, except per share data)		
Product sales	$ 806,801	$723,151	$697,266
Service sales	297,735	235,054	192,701
Total net sales	1,104,536	958,205	889,967
Cost of product sales	307,627	285,752	273,166
Cost of service sales	147,180	112,096	100,302
Total cost of sales	454,807	397,848	373,468
Gross profit	649,729	560,357	516,499
Selling and administrative expenses	300,150	264,252	246,816
Research and development expenses	65,241	59,242	51,923
Purchased intangibles amortization	4,814	4,242	3,600
Litigation settlement and provisions (Notes 12 and 13)	(9,277)	1,500	7,900
Loss on sale of business (Note 8)	—	5,031	—
Impairment of long-lived intangible asset (Notes 5 and 9)	3,997	—	2,445
Restructuring and other charges, net (Note 14)	(54)	918	7,404
Expensed in-process research and development (Note 7)	—	6,000	—
Operating income	284,858	219,172	196,411
Other expense, net (Note 5)	(1,014)	(250)	(5,997)
Interest expense	(10,074)	(2,367)	(2,480)
Interest income	11,901	7,131	7,477
Income from operations before income taxes	285,671	223,686	195,411
Provision for income taxes	61,618	52,795	43,193
Income before cumulative effect of changes in accounting principles	224,053	170,891	152,218
Cumulative effect of changes in accounting principles, net of tax of $1,345 for 2002 (Note 2)	—	—	(4,506)
Net income	$ 224,053	$170,891	$147,712
Income per basic common share:			
Income before cumulative effect of changes in accounting principles per basic common share	$ 1.87	$ 1.39	$ 1.17
Cumulative effect of changes in accounting principles	—	—	(0.03)
Net income per basic common share	$ 1.87	$ 1.39	$ 1.13
Weighted average number of basic common shares	119,640	123,189	130,489
Income per diluted common share:			
Income before cumulative effect of changes in accounting principles per diluted common share	$ 1.82	$ 1.34	$ 1.12
Cumulative effect of changes in accounting principles	—	—	(0.03)
Net income per diluted common share	$ 1.82	$ 1.34	$ 1.09
Weighted average number of diluted common shares and equivalents	123,069	127,579	135,762

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

WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 224,053	$ 170,891	$ 147,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change for patent related costs	—	—	4,506
Loss on sale of business	—	5,031	—
Provisions (recoveries) for doubtful accounts on accounts receivable	1,332	(188)	749
Expensed in process research and development	—	6,000	—
Provisions on inventory	7,349	8,848	2,646
Impairment of investments and other assets	5,011	250	16,121
Deferred income taxes	1,468	(5,926)	(756)
Depreciation	22,075	21,983	26,044
Amortization of intangibles	19,851	11,865	11,150
Tax benefit related to stock option plans	32,012	17,582	7,033
Change in operating assets and liabilities, net of acquisitions and divestitures:			
(Increase) decrease in accounts receivable	(36,453)	11,973	(2,019)
Increase in inventories	(11,575)	(4,302)	(4,575)
(Increase) decrease in other current assets	(7,344)	(3,199)	383
Decrease (increase) in other assets	3,716	501	(5,791)
Increase (decrease) in accounts payable and other current liabilities	12,203	(30,005)	5,163
Increase (decrease) in deferred revenue and customer advances	1,526	3,277	(727)
(Decrease) increase in accrued litigation	(16,095)	(60,120)	5,830
Increase in other liabilities	320	2,544	5,951
Net cash provided by operating activities	259,449	157,005	219,420
Cash flows from investing activities:			
Additions to property, plant, equipment, software capitalization and other intangibles	(66,236)	(34,586)	(37,965)
Business acquisitions, net of cash acquired	(42,369)	(35,204)	(5,851)
Investments in unaffliated companies	—	—	(14,500)
Proceeds from sale of business	—	1,183	—
Decrease (increase) in restricted cash	—	49,944	(49,944)
Net cash used in investing activities	(108,605)	(18,663)	(108,260)

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Cash flows from financing activities:			
Net borrowings on bank revolvers	199,304	238,823	1,751
Proceeds from the debt refinancing	445,000	125,000	—
Payments on debt refinancing	(433,950)	(125,000)	—
Payments of debt issuance costs	(1,578)	(436)	(827)
Proceeds from stock plans	44,982	27,824	11,276
Purchase of treasury shares	(231,287)	(324,578)	(99,296)
Payments of debt swaps and other derivatives contracts	(964)	(5,273)	(1,423)
Net cash provided by (used in) financing activities	21,507	(63,640)	(88,519)
Effect of exchange rate changes on cash and cash equivalents	9,945	18,767	13,873
Increase in cash and cash equivalents	182,296	93,469	36,514
Cash and cash equivalents at beginning of period	356,781	263,312	226,798
Cash and cash equivalents at end of period	$ 539,077	$ 356,781	$ 263,312
Supplemental cash flow information:			
Income taxes paid	$ 28,574	$ 39,353	$ 35,878
Interest paid	$ 9,676	$ 3,457	$ 491

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	Statement of Comprehensive Income
					(In thousands)				
Balance December 31, 2001	130,918	$1,309	$232,907	$ —	$359,926	$ —	$(12,397)	$ 581,745	
Comprehensive income, net of tax:									
Net income	—	—	—	—	147,712	—	—	147,712	$147,712
Other comprehensive income (loss):									
Foreign currency translation	—	—	—	—	—	—	26,489	26,489	26,489
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax		—	—	—	—	—	(495)	(495)	(495)
Minimum pension liability adjustment	—	—	—	—	—	—	(9,189)	(9,189)	(9,189)
Unrealized gains (losses) on investments, net		—	—	—	—	—	35	35	35
Other comprehensive income	—	—	—	—	—	—	16,840	16,840	16,840
Comprehensive income									$164,552
Issuance of common stock for Employee Stock Purchase Plan	88	1	2,318	—	—	—	—	2,319	
Stock options exercised	1,176	12	8,945	—	—	—	—	8,957	
Tax benefit related to stock option plans	—	—	7,033	—	—	—	—	7,033	
Treasury stock	—	—	—	—	—	(99,296)	—	(99,296)	
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	—	—	—	—	—	—	40,443	40,443	40,443
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax		—	—	—	—	—	(1,121)	(1,121)	(1,121)
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	—	—	—	—	—	—	24,059	24,059	24,059
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	—	—	—	—	—	—	(5,987)	(5,987)	(5,987)
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)	
Issuance of 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	

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. Liquid chromatography (LC or UPLC) 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"). 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 ("Micromass") 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, Waters 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, pension obligations, contingencies and litigation. Waters 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 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.

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 64% in 2004, 63% in 2003 and 59% in 2002. 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 53% in 2004, 53% in 2003 and 54% in 2002. None of the Company's individual customers accounted for more than 3% of annual Company sales in 2004, 2003 and 2002. 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.

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 is recorded at cost. Expenditures for maintenance and repairs are charged to expense while the costs of significant improvements are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives: buildings — thirty years, building improvements — seven 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 balance sheet and related gains or losses are reflected in the statement of operations. There were no material gains or losses from retirement or sale of assets in 2004, 2003 and 2002.

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 Standards ("SFAS") 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.

Software Development Costs

The Company capitalizes software development costs for products offered for sale in accordance with SFAS 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, 2004 and 2003, capitalized internal software included in property, plant and equipment totaled $2.7 million and $1.7 million net of accumulated amortization of $2.5 million and $2.1 million, respectively.

Change in Accounting for Patent Related Costs

In the second quarter of 2002, the Company changed its method of accounting for legal costs associated with litigating patents effective January 1, 2002. Prior to the change, the Company capitalized these patent costs and amortized them over the estimated remaining economic life of the patent. Under the new method, these costs are expensed as incurred. The Company believes that this change is preferable because it will provide a better comparison with the Company's industry peers, the majority of which expense these costs as incurred. The $4.5 million cumulative effect of the change on prior years (after reduction for income taxes of $1.3 million) is included as a charge to net income as of January 1, 2002. The effect of the change for the year ended December 31, 2002 was to decrease income before cumulative effect of change in accounting principle approximately $2.8 million or $0.02 per diluted share and net income $7.3 million or $0.05 per diluted share.

Investments

The Company accounts for its investments that represent less than twenty percent ownership using SFAS 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, 2004 and 2003 are included in other assets.

Asset Impairments

The Company reviews its long-lived assets for impairment in accordance with SFAS 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 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.

On June 25, 2002, the Board of Directors authorized the Company to repurchase up to $200.0 million of its outstanding common shares over a one-year period. During the years ended December 31, 2003 and 2002, the Company purchased 4,399 shares of its common stock for $100.6 million and 4,078 shares of its common stock for $99.3 million, respectively. The total shares purchased under this program were 8,477 thus completing its $200.0 million stock buyback program.

On May 6, 2003, the Company's Board of Directors authorized the Company to repurchase up to $400.0 million of its outstanding common shares over a two-year period. During the years ended December 31, 2004 and 2003, the Company purchased 4,270 shares of its common stock for $175.0 million and 7,540 shares of its common stock for $224.0 million, respectively. At December 31, 2003, the Company had borrowings outstanding under its credit facility of $236.5 million principally to finance share repurchases. The total shares purchased under this program were 11,810, effectively completing its $400.0 million stock buyback program.

On October 25, 2004, the Company's Board of Directors authorized the Company to repurchase up to $500.0 million in outstanding common shares over a two-year period. During the year ended December 31, 2004, the Company purchased 1,246 shares of its common stock for $56.3 million. At December 31, 2004, the Company had borrowings outstanding under its credit facility of $440.0 million principally to finance share repurchases.

In the aggregate, the Company has repurchased 5,516 shares of its common stock for $231.3 million during the year ended December 31, 2004. The Company believes that the current share repurchase program is beneficial to shareholders by increasing earnings per share via reducing the outstanding number of shares through open market purchases.

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 balance sheet 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 balance sheet 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.

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 re-classified to earnings in 2004 was $0.7 million. The remaining $0.9 million will be re-classified to earnings in 2005 over the original term of the interest rate swap. As of December 31, 2004, the Company had no outstanding cash flow hedges.

Hedges of Net Investments in Foreign Operations

The Company has operations in various countries and currencies throughout the world, with approximately 31% of its sales denominated in Euros, 11% in Yen and smaller sales exposures in other currencies. 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 2004, the Company hedged its net investment in Yen foreign affiliates with cross-currency interest rate swaps, with notional values ranging from approximately $25.0 million to approximately $37.0 million. At December 31, 2004 and 2003, the notional amounts of outstanding contracts were approximately $37.0 million and $25.0 million, respectively. For the year ended December 31, 2004, the Company recorded cumulative net pre-tax losses of $2.4 million in accumulated other comprehensive income, which consisted of realized losses of $1.6 million relating to closed cross-currency interest rate swap agreements and unrealized losses of $0.8 million relating to the 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 consisted of realized gains of $1.3 million and unrealized gains of $0.3 million. For the year ended December 31, 2002, the Company recorded cumulative net pre-tax losses of $1.0 million in accumulated other comprehensive income, which consisted of realized losses of $1.4 million and unrealized gains of $0.4 million.

During 2004, the Company hedged its net investment in British pound foreign affiliates with forward foreign exchange contracts in British pounds. 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 consisted 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 British pounds 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. For the year ended December 31, 2002, the Company recorded unrealized gains of $0.3 million in accumulated other comprehensive income relating to forward foreign exchange contracts in British pounds.

During 2004, the Company hedged its net investment in British pound foreign affiliates with range forward agreements in British pounds. Under the terms of the agreement, the Company purchases an option below the current spot rate to sell British pounds, and sells an option to its counterparties above the current spot rate to buy British pounds, with option premiums that offset. 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. As of December 31, 2004, the Company had no open range forward agreements 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 statement of operations. At December 31, 2004 and December 31, 2003, the Company held forward foreign exchange contracts with notional amounts totaling approximately $62.9 million and $32.0 million, respectively.

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, 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 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 criteria is satisfied. Discounts from list prices are recorded as a reduction to sales.

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 under the provisions of SOP 97-2, "Software Revenue Recognition," as 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 rollforward of the Company's accrued warranty liability for the year ended December 31, 2004 (in thousands):

	Balance at Beginning of Period	Accruals for warranties	Settlements made	Balance at End of Period
Accrued warranty liability:				
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 2004, 2003 and 2002 were $6.4 million, $7.5 million and $8.3 million, respectively.

Research and Development Expenses

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

Expensed In-Process Research and Developments 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 25, "Accounting for Stock Issued to Employees," and related interpretations, including Interpretation 44, "Accounting for Certain Transactions Involving Stock Compensation," for its plans. Accordingly, no compensation expense has been recognized for its fixed employee stock option plans and its employee stock purchase plan since all

stock based compensation awards are granted at the current fair value of the Company's common stock as of the date of the award.

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, "Accounting for Stock-Based Compensation" for the Company's five stock-based compensation plans.

Compensation Expense — Fair Value Method (in thousands, except per share data)	2004	2003	2002
Net income, as reported December 31	$224,053	$170,891	$147,712
Deduct: total stock-based employee compensation expense, net of related tax effects	(39,437)	(25,999)	(25,222)
Pro forma net income	$184,616	$144,892	$122,490
Net income per share:			
Basic — as reported	$ 1.87	$ 1.39	$ 1.13
Basic — pro forma	$ 1.54	$ 1.18	$ 0.94
Diluted — as reported	$ 1.82	$ 1.34	$ 1.09
Diluted — pro forma	$ 1.50	$ 1.14	$ 0.90

The fair value of each option grant under SFAS 123 was estimated on the date of grant using the Black-Scholes option-pricing model. Relevant data are described below (options issued are in thousands):

Options Issued and Significant Assumptions Used to Estimate Option Fair Values	2004	2003	2002
Options issued	1,975	2,104	1,602
Risk-free interest rate	3.8	4.1	3.3
Expected life in years	5.5	7.5	7.5
Expected volatility	.552	.541	.561
Expected dividends	0	0	0

In 2004, the Company modified the expected life of stock options granted to 5.5 years based on a review of the historical activity of stock options exercised.

Weighted Average Exercise Price and Fair Values of Options on the Date of Grant	2004	2003	2002
Exercise price	$46.79	$31.60	$21.74
Fair value	$25.10	$20.13	$13.28

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004), "Share-Based Payment", which requires the expensing of unvested stock options. SFAS 123R is effective as of the third fiscal quarter of 2005. Assuming SFAS 123R is adopted as expected beginning July 1, 2005, pre-tax compensation expense recognized in the 2005 financial statements is expected to approximate $14.5 million (unaudited).

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. 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 123R which, under the modified prospective method, requires the expensing of unvested stock options in the first interim or annual reporting period that begins after June 15, 2005. As a result of this acceleration, the Company would not be required to recognize share-based compensation, net of related tax effects, of $4.1 million (unaudited) in the second half of 2005, based on valuation calculations using the

Black-Scholes methodology. Total 2004 stock-based compensation expense, net of related tax effects, is $39.4 million including approximately $11.4 million of expense, net of related tax effects, as a result of the acceleration of the 238 thousand unvested stock options on December 31, 2004.

Income Per Share

In accordance with SFAS 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 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 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 December 2004, the FASB issued SFAS 123R, 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 interim periods beginning after June 15, 2005. The final standard allows alternative methods for determining fair value. At the present time, the Company has not yet determined which valuation method it will use; however, under the Black-Scholes valuation model, it is estimated that the pre-tax compensation expense recorded in the consolidated statements of operations for the second half of 2005 would be approximately $14.5 million (unaudited).

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. At the present time, the Company does not believe that adoption of SFAS 153 will have a material effect on its 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 is evaluating SFAS 151 but does not believe that it will have a material effect on its financial position, results of operations or cash flows.

In October 2004, the American Jobs Creation Act of 2004 ("AJCA") was signed into law. The AJCA contains a series of provisions, several of which are pertinent to the Company. 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 has been the Company's practice to permanently reinvest all foreign earnings into foreign operations and the Company currently still plans to continue to reinvest foreign earnings permanently into its foreign operations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions of the AJCA. As such, the Company is not yet in a position to decide on whether, and to what

extent, the Company might repatriate foreign earnings that have not yet been remitted to the U.S. Should the Company determine that it plans to repatriate any foreign earnings, it will be required to establish an income tax expense and related tax liability on such earnings. If the Company elects this provision before it expires at the end of 2005, the Company could repatriate a maximum of $500.0 million (unaudited) in qualified foreign earnings. If the maximum was repatriated, the Company estimates an increase in the income tax provision of between $20.0 million (unaudited) and $45.0 million (unaudited) depending on the final technical clarifications.

3 Inventories

Inventories are classified as follows (in thousands):

	December 31,	
	2004	2003
Raw materials	$ 51,777	$ 41,768
Work in progress	14,125	14,031
Finished goods	73,998	73,011
Total inventories	$139,900	$128,810

4 Property, Plant and Equipment

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

	December 31,	
	2004	2003
Land and land improvements	$ 7,877	$ 5,633
Buildings and leasehold improvements	88,834	59,167
Production and other equipment	181,800	168,394
Construction in progress	8,859	6,372
Total property, plant and equipment	287,370	239,566
Less: accumulated depreciation and amortization	(151,462)	(131,404)
Property, plant and equipment, net	$ 135,908	$ 108,162

5 Business Investments

In November 2000 and February 2002, the Company made minority equity investments in GeneProt™, Inc. ("GeneProt"), a privately held company, of $3.6 million and $10.0 million, respectively. The investment in GeneProt is 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 and $12.6 million to other income (expense) in the consolidated statements of operations during the years ended December, 31, 2004 and 2002, respectively, for an other-than-temporary impairment of its investment in GeneProt. The investment in GeneProt is zero at December 31, 2004 and approximately $1.0 million at December 31, 2003, and is included in other assets. In connection with GeneProt's canceled order of up to $20.0 million of mass spectrometry equipment, related systems and services, the Company received approximately $7.7 million from GeneProt as a cancellation fee, which is recorded in other income (expense) in the consolidated statements of operations for the year ended December 31, 2002.

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 and $3.0 million for a license to manufacture and sell reagents. The investment in Variagenics is included in other assets and carried at fair value with unrealized gains and losses reported as a separate component of other comprehensive income (loss). During 2002, the Company recorded a $1.0 million charge to other income (expense), in the consolidated statements of operations, for an other than temporary impairment of the equity investment and warrants resulting from Variagenics public stock price declines. In the fourth quarter of 2002, the license with Variagenics described above was deemed fully impaired as the technology collaboration program ceased, and the Company abandoned the technology and the Company recorded a $2.4 million charge to impairment of long-lived intangible asset in the consolidated statements of operations. On January 31, 2003 Variagenics was merged with Hyseq Pharmaceuticals and is now named Nuvelo, Inc. ("Nuvelo"). The carrying amount, which approximates market value, of the investment was approximately $3.0 million and $3.2 million at December 31, 2004 and 2003, respectively.

Other minority equity investments made during 2003 were $1.8 million. Excluding the effects of currency, sales to these entities during 2004 and 2003 were approximately $0.9 million and $1.4 million, respectively.

During 2003, the Company recorded a $0.3 million charge to other income (expense) in the consolidated statements of operations for the impairment of certain other equity investments.

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 develops and markets 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	162
Total assets acquired	54,102
Accrued expenses and other current liabilities	6,817
Deferred tax liability	4,348
Total liabilities acquired	11,165
Cash consideration paid	$42,937

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.

The Company recorded approximately $1.1 million in purchase accounting liabilities relating to the NuGenesis acquisition. Approximately $0.3 million has been utilized and $0.7 million has been reversed as of 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.

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

	Amounts	Utilization	Reversals	Balance December 31, 2004
Facility related costs	$ 660	—	(660)	$—
Other	400	(339)	—	61
Total	$1,060	$(339)	$(660)	$61

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 specializes 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, 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. The Company has allocated $4.4 million of the purchase price to intangible assets comprised of customer lists and other purchased intangibles. The excess purchase price of $5.6 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 Creon acquisition (in thousands):

Accounts receivable	$ 2,201
Inventory	145
Deferred tax asset	2,500
Other current assets	74
Goodwill	5,552
Intangible assets	4,421
Other assets	371
Total assets acquired	15,264
Accrued expenses and other current liabilities	4,175
Other liabilities	748
Total liabilities acquired	4,923
Expensed in-process research and development	6,000
Cash consideration paid	$16,341

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 has allocated $5.5 million of the purchase price to intangible assets comprised of customer lists, trademarks and other purchased intangibles. The excess purchase price of $15.0 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 Rheometrics acquisition (in thousands):

Accounts receivable	$ 3,932
Inventories	1,784
Goodwill	15,007
Intangible assets	5,450
Other assets	679
Total assets acquired	26,852
Accounts payable	3,046
Accrued expenses and other current liabilities	6,408
Other liabilities	885
Total liabilities acquired	10,339
Cash consideration paid	$16,513

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.

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

	Balance December 31, 2003	Amounts	Utilization	Balance December 31, 2004
Severance	$ 57	$—	$ (57)	$ —
Relocation	295	—	(222)	73
Supplier and contract terminations	67	—	(32)	35
Facility related costs	206	—	(53)	153
Other	8	—	(8)	—
Total	$633	$—	$(372)	$261

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.

During 2002, the Company made business acquisitions totaling $5.9 million. The business acquisitions were accounted for under the purchase method of accounting and the results of operations of the acquired companies have been included in the consolidated results of the Company from the acquisition date. The purchase prices of the acquisitions have been allocated to tangible and intangible assets and any assumed liabilities based on respective fair market values. Any excess purchase price after this allocation has been accounted for as goodwill. With respect to the 2002 acquisitions, the Company allocated approximately $2.6 million of the purchase price to customer contracts and non-compete covenants. Fixed assets and intangible assets are being amortized over their expected useful lives.

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 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, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Net revenues	$1,105,852	$984,080	$919,000
Income before cumulative effect of changes in accounting principles	221,188	173,918	146,525
Net income	221,188	173,918	142,019
Income per basic common share (excluding expensed in-process research and development charge):			
Income before cumulative effect of changes in accounting principles	$ 1.85	$ 1.41	$ 1.12
Net income	$ 1.85	$ 1.41	$ 1.09
Income per diluted common share (excluding expensed in-process research and development charge):			
Income before cumulative effect of changes in accounting principles	$ 1.80	$ 1.36	$ 1.08
Net income	$ 1.80	$ 1.36	$ 1.05

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

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 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 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 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. As of December 31, 2004, the IPR&D automatic LC-MS dereplication system project still had not reached technological feasibility. The expected remaining cost to complete this project is not considered material to the Company and there are currently no expected material variations between projected results from the projects versus those at the time of the acquisition. The Company expects the project to be completed within the next twelve months.

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 revenue 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 $228.5 million and $197.4 million at December 31, 2004 and 2003, respectively. The increase of $31.1 million is attributable to the Company's acquisitions (Note 6) during the period of approximately $28.3 million, including certain adjustments made in the third quarter of 2004, and currency translation adjustments of approximately $2.8 million.

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

	December 31, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period
Purchased intangibles	$ 64,814	$22,812	11 years	$ 54,676	$25,532	11 years
Capitalized software	66,186	35,384	3 years	53,879	26,215	3 years
Licenses	9,500	4,122	10 years	12,965	2,546	10 years
Patents and other intangibles	9,829	2,762	8 years	6,737	1,800	8 years
Total	$150,329	$65,080	7 years	$128,257	$56,093	7 years

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 analysis technology no longer in use. During 2004, the Company recorded a $4.0 million charge to operating income in the consolidated statement of operations for the impairment of a license with Sandia National Laboratories. There was no such charge in 2003.

For the years ended December 31, 2004, 2003 and 2002, amortization expense for intangible assets was $19.9 million, $11.9 million and $11.2 million, respectively. Amortization expense for intangible assets is estimated to be approximately $20.0 million for each of the next five years. Accumulated amortization for intangible assets increased approximately $0.2 million in 2004 due to the effect of foreign currency translation.

10 Debt

In December 2004, the Company entered into a syndicated committed Credit Agreement (the "Credit Agreement") that provided for a $250.0 million term loan facility, a $300.0 million revolving facility ("US Tranche"), which includes both a letter of credit and a swingline subfacility, and a $150.0 million revolving facility ("European Tranche"). The Company may, on a single occasion, request of the lender group that commitments for the US Tranche or European Tranche be increased up to an additional $100.0 million. Existing lenders are not obligated to increase commitments, and the Company can seek to bring in additional lenders. The term loan facility and the revolving facilities both mature on December 15, 2009, and require no scheduled prepayments before that date.

On December 15, 2004, the Company borrowed $250.0 million under the term loan facility and $195.0 million under the US Tranche revolving facility. The Company used the proceeds of the term loan and the revolving borrowing for the primary purpose of repaying outstanding amounts under the Prior Credit Agreement (defined below). The Company terminated such agreement early without penalty. The terminated credit agreement consisted of a term loan tranche of $125.0 million and a revolving tranche of $250.0 million. The terminated credit agreement was unsecured in nature.

The interest rates applicable to term loan and revolving loans under the new 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 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 29.5 basis points and 80.0 basis points. The Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.5:1, and a leverage ratio test of not more than 3:1, for any period of four consecutive fiscal quarters, respectively. The minimum interest coverage ratio on the Prior Credit Agreement was 5:1 and the maximum leverage ratio test was 2.5:1. In addition, the Credit Agreement includes negative covenants that are customary for investment grade credit facilities and are similar in nature to ones contained in the Prior Credit Agreement. The Credit Agreement also contains certain customary representations and warranties, affirmative covenants and events of default, similar in nature to those in the terminated credit agreement.

In February 2002, the Company entered into an agreement ("Prior Credit Agreement") that provided for a $250.0 million line of credit, unsecured in nature and an expiration date in February 2007. Loans under the Prior Credit Agreement bore interest for each calendar quarter at an annual rate equal to, at the Company's option, 1) the applicable LIBOR rate plus a varying margin between 0.60% and 1.50% or 2) prime rate.

In December 2003, the Company amended its existing $250.0 million Prior Credit Agreement ("Amended Credit Agreement") dated February 2002 by closing on a $125.0 million Add-On Term Loan Facility ("Term Loan"). Proceeds from the Term Loan were used to repay borrowings under the Prior Credit Agreement, repurchase stock and for general corporate purposes and was classified as long-term debt at December 31, 2003. The applicable interest changed from being based on the ratio of debt to total capitalization to debt to EBITDA. Loans under the Amended Credit Agreement bore interest for each quarter at a floating rate equal to, at the Company's option, 1) the applicable LIBOR rate plus a varying margin between 0.60% and 1.50% or 2) prime rate.

At December 31, 2004, the Company had aggregate borrowings under the Credit Agreement of $440.0 million and an amount available to borrow of $256.8 million, after outstanding letters of credit. At December 31, 2004, the $250.0 million term loan was fully drawn and classified as long-term debt. At December 31, 2003, the Company had aggregate borrowings under the Amended Credit Agreement of $100.0 million and an amount available to borrow of $147.7 million, after outstanding letters of credit.

The Company, and its foreign subsidiaries, also had available short-term lines of credit, totaling $95.7 million at December 31, 2004 and $96.0 million at December 31, 2003. At December 31, 2004 and 2003, related short-term borrowings were $16.7 million at a weighted average interest rate of 2.45% and $21.3 million at a weighted average interest rate of 2.11%, respectively.

11 Income Taxes

Income tax data for the years ended December 31, 2004, 2003 and 2002 follow in the tables below (in thousands):

	Year Ended December 31,		
	2004	2003	2002
The components of income from operations before income taxes were as follows:			
Domestic	$ 83,573	$ 55,580	$ 17,604
Foreign	202,098	168,106	177,807
Total	$285,671	$223,686	$195,411
The components of the current and deferred income tax provision from operations were as follows:			
Current	$ 58,674	$ 46,008	$ 46,527
Deferred	2,944	6,787	(3,334)
Total	$ 61,618	$ 52,795	$ 43,193
The components of the provision for income taxes from operations were as follows:			
Federal	$ 28,262	$ 20,077	$ 4,413
State	4,061	2,066	1,379
Foreign	29,295	30,652	37,401
Total	$ 61,618	$ 52,795	$ 43,193
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	$ 99,985	$ 78,290	$ 68,394
Extraterritorial income exclusion	(3,061)	(2,665)	(2,275)
State income tax, net of federal income tax benefit	2,640	1,343	896
Net effect of foreign operations	(37,875)	(23,811)	(23,885)
Other, net	(71)	(362)	63
Provision for income taxes	$ 61,618	$ 52,795	$ 43,193

	December 31, 2004	December 31, 2003
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	$ 136,313	$ 111,020
Amortization	6,357	9,022
Deferred compensation	9,193	7,844
Revaluation of equity investments	10,390	8,135
Inventory	2,735	2,620
Accrued liabilities and reserves	5,887	4,575
Interest	5,161	—
Other	7,337	4,728
	183,373	147,944
Valuation allowance	(167,501)	(128,280)
Deferred tax asset, net of valuation allowance	15,872	19,664
Deferred tax liabilities:		
Depreciation and capitalized software	(8,469)	(12,022)
Amortization	(1,625)	(1,816)
Indefinite lived intangibles	(8,766)	(7,518)
Other	(3,283)	(3,111)
	(22,143)	(24,467)
Net deferred tax (liabilities) assets	$ (6,271)	$ (4,803)

The income tax benefits associated with nonqualified stock option compensation expense recognized for tax purposes and credited to additional paid-in capital were $32.0 million, $17.6 million and $7.0 million for the years ended December 31, 2004, 2003 and 2002, respectively. The deferred tax benefit of net operating losses and credits is broken out as follows: $73.0 million ($197.3 million pre-tax) in U.S. operating loss carryforwards that begin to expire in 2020; $48.4 million in foreign tax credits, which begin to expire in 2009; $5.6 million in research and development credits that begin to expire in 2009; $1.6 million in alternative minimum income tax credits with no expiration date; and $7.7 million ($26.7 million pre-tax) in foreign net operating losses with expiration dates ranging from 2005 to unlimited. The Company believes that it is more likely than not that the U.S. deferred tax benefit of $154.9 million will not be realized, therefore, a valuation allowance has reduced to zero all the deferred tax benefit relating to U.S. income. In addition, the Company has provided a full valuation allowance of $12.6 million against certain foreign net operating losses and deferred interest. The deferred tax liabilities relate primarily to the U.S. To the extent that the deferred tax assets relate to stock option deductions, the resultant benefits, if and when realized, will be credited to stockholders' equity.

Net deferred tax assets included in other current assets totaled $4.1 million and $4.5 million at December 31, 2004 and 2003, respectively. Net deferred tax liabilities included in other current liabilities totaled $10.4 million and $9.3 million at December 31, 2004 and 2003, respectively.

The Company's effective tax rate for the years ended December 31, 2004, 2003 and 2002 were 21.6%, 23.6% and 22.1%, respectively. The Company's effective tax rate 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 $42.9 million or $0.35 per diluted share for the year ended December 31, 2004.

At December 31, 2004, there were unremitted earnings of foreign subsidiaries of approximately $806.5 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 of 2004 ("AJCA") was signed into law. The AJCA contains a series of provisions, several of which are pertinent to the Company. 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 has been the Company's practice to permanently reinvest all foreign earnings into foreign operations and the Company currently still plans to continue to reinvest foreign earnings permanently into its foreign operations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret numerous provisions of the AJCA. As such, the Company is not yet in a position to decide on whether, and to what extent, the Company might repatriate foreign earnings that have not yet been remitted to the U.S. Should the Company determine that it plans to repatriate any foreign earnings, it will be required to establish an income tax expense and related tax liability on such earnings. If the Company elects this provision before it expires at the end of 2005, the Company could repatriate a maximum of $500.0 million (unaudited) in qualified foreign earnings. If the maximum was repatriated, the Company estimates an increase in the income tax provision of between $20.0 million (unaudited) and $45.0 million (unaudited) depending on the final technical clarifications.

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 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, 2004 and December 31, 2003 were $0.1 million and $19.9 million, respectively. The accrued expense at December 31, 2004 represents the Company's best estimate of remaining legal expenses necessary to conclude this litigation. The change in the liability from December 31, 2003 is attributed to the one-time payment of $18.1 million and payments of legal fees directly associated with these cases. There were no charges in the statements of operations for the year ended December 31, 2004 and 2003 related to these cases.

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, have brought an action alleging that certain features of the Alliance pump may infringe the HP patents. In England, the Court of Appeal has 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 on June 8, 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, the UK court ruled in the new action that the Company did not infringe the HP patents. HP has filed an appeal in that action and the damages trial scheduled for March 2005 has been postponed pending this appeal and rescheduled for November 2005. 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 on April 12, 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. HP is seeking an appeal in that action.

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, excluding the effect of the recent suit filed in March 2004. This provision represents management's best estimate of the probable and reasonably estimable loss related to this litigation. 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, 2004 was $4.5 million for the England and France suits. The liability includes a provision of $0.8 million made in 2002. The change in the liability through December 31, 2004 is attributable to a payment of initial deposits of potential damages of $3.2 million 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. 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. 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

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

represents costs incurred, including severance costs, for the 70 people and other directly related incremental costs of this realignment effort.

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

	Balance December 31, 2003	Charges	Utilization	Balance December 31, 2004
Severance	$—	$1,968	$(1,968)	$—
Other	—	115	(115)	—
Total	$—	$2,083	$(2,083)	$—

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 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. There were no such reversals in 2002.

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

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

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, 2004 and 2002.

15 Other Commitments and Contingencies

Lease agreements, expiring at various dates through 2022, cover buildings, office equipment and automobiles. Rental expense was $19.7 million, $19.6 million and $13.9 million during the years ended December 31, 2004, 2003 and 2002, respectively. Future minimum rents payable as of December 31, 2004 under non-cancelable leases with initial terms exceeding one year are as follows (in thousands):

2005	$17,520
2006	13,349
2007	10,529
2008	8,297
2009 and thereafter	35,410

The Company licenses certain technology and software from third parties, which expire at various dates through 2008. Fees paid for licenses were approximately $1.1 million, $2.9 million and $5.4 million during the years ended December 31, 2004, 2003 and 2002, respectively. Future minimum licenses payable under existing license agreements as of December 31, 2004 are $0.5 million for the year ended December 31, 2005, and are 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 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 May 7, 1996, the Company's shareholders approved the 1996 Long-Term Incentive Plan ("1996 Plan"), which provides for the granting of 4,000 shares of Common Stock, in the form of incentive or non-qualified stock options, stock appreciation rights ("SARs"), restricted stock or other types of awards. Under the 1996 Plan, the exercise price for stock options may not be less than the fair market value of the underlying stock at the date of grant. On May 7, 2002 and May 12, 1998, the Company's shareholders approved an additional 5,750 and 8,000 shares, respectively, of Common Stock for issuance under the 1996 Plan. The 1996 Plan is scheduled to terminate on May 7, 2006, unless extended for a period of up to five years by action of the Board of Directors. Options generally will expire no later than ten years after the date on which they are granted and will become exercisable as directed by the Compensation Committee of the Board of Directors. A SAR may be granted alone or in conjunction with an option or other award.

The Company's 1994 Stock Option Plan ("1994 Plan") provided for the granting of 20,141 options to purchase shares of Common Stock to certain key employees of the Company. The exercise price of the options was determined by a committee of the Board of Directors of the Company. Options granted have a term of ten years and vest in five equal installments on the first five anniversaries after the grant.

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

On November 20, 2003, the Company's shareholders approved the 2003 Equity Incentive Plan ("2003 Plan"). The 2003 Plan replaced the 1996 Plan, the Director Stock Option Plan and the 1994 Plan, 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, 2004.

The following table details the weighted average remaining contractual life of options outstanding at December 31, 2004 by range of exercise prices (in thousands, except per share data):

Exercise Price Range	Number of Shares Outstanding	Weighted Average Exercise Price	Remaining Contractual Life of Options Outstanding	Number of Shares Exercisable	Weighted Average Exercise Price
$ 1.02 to $ 2.00	22	$ 1.02	0.0 years	22	$ 1.02
$ 2.01 to $ 5.00	153	$ 2.62	0.6 years	153	$ 2.62
$ 5.01 to $10.00	364	$ 8.56	1.4 years	364	$ 8.56
$10.01 to $15.00	663	$10.69	2.9 years	663	$10.69
$15.01 to $20.00	861	$19.68	3.9 years	861	$19.68
$20.01 to $30.00	2,504	$22.32	6.7 years	1,546	$22.70
$30.01 to $40.00	3,573	$34.09	8.0 years	1,236	$35.11
$40.01 to $80.97	3,182	$56.72	8.3 years	1,239	$71.44
	11,322	$34.07	6.9 years	6,084	$31.98

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

	Number of Shares	Price per Share	Weighted Average Exercise Price
Outstanding at December 31, 2001	17,196	$1.02 to $80.97	$18.98
Granted	1,602	$21.39 to $38.41	$21.74
Exercised	(1,176)	$1.02 to $23.06	$ 7.62
Canceled	(295)	$8.05 to $72.06	$38.37
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	(462)	$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	(606)	$21.39 to $72.06	$43.39
Outstanding at December 31, 2004	11,322	$1.02 to $80.97	$34.07

Options exercisable at December 31, 2004, 2003 and 2002 were 6,084, 9,080 and 11,950, respectively. The weighted average exercise prices of options exercisable at December 31, 2004, 2003 and 2002 were $31.98, $19.48 and $12.63, respectively.

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

Shares available for grant under the 2003 Plan at December 31, 2004 were 2,680.

As described in Note 2, regarding stock-based compensation, the Company accelerated the vesting of approximately 238 thousand unvested stock options on December 31, 2004. This vesting acceleration has been reflected in the table above for number of shares exercisable.

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 1,000 shares of the Company's Common Stock commencing October 1, 1996. As of December 31, 2004, approximately 610 shares have been issued under the plan. Each plan period lasts three months beginning on January 1, April 1, July 1 and October 1 of each year. The purchase price for each share of stock is the lesser of 90% of the market price on the first day of the plan period or 100% of the market price on the last day of the plan period. No compensation expense is recorded in connection with the plan.

17 Earnings per Share

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

	Year Ended 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Income before cumulative effect of change in accounting principle per basic common share	$224,053	119,640	$1.87
Effect of dilutive securities:			
Options outstanding		2,192	
Options exercised and cancellations		1,237	
Income before cumulative effect of change in accounting principle per diluted common share	$224,053	123,069	$1.82

	Year Ended 2003		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Income before cumulative effect of change in accounting principle per basic common share	$170,891	123,189	$1.39
Effect of dilutive securities:			
Options outstanding		2,993	
Options exercised and cancellations		1,397	
Income before cumulative effect of change in accounting principle per diluted common share	$170,891	127,579	$1.34

	Year Ended 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Income before cumulative effect of change in accounting principle per basic common share	$152,218	130,489	$1.17
Effect of dilutive securities:			
Options outstanding		5,042	
Options exercised and cancellations		231	
Income before cumulative effect of change in accounting principle per diluted common share	$152,218	135,762	$1.12

For the years ended December 31, 2004, 2003 and 2002, the Company had 3,182, 5,512 and 3,802 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.

18 Comprehensive Income

Comprehensive income details follow (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Net income	$224,053	$170,891	$147,712
Foreign currency translation	24,059	40,443	26,489
Net appreciation (depreciation) and realized gains (losses) on derivative instruments	(9,211)	(1,724)	(762)
Income tax (benefit)	(3,224)	(603)	(267)
Net appreciation (depreciation) and realized gains (losses) on derivative instruments, net of tax	(5,987)	(1,121)	(495)
Net foreign currency adjustments	18,072	39,322	25,994
Minimum pension liability adjustment	427	116	(9,189)
Unrealized gains (losses) on investments before income taxes	(191)	2,351	54
Income tax (benefit)	(67)	823	19
Unrealized gains (losses) on investments, net of tax	(124)	1,528	35
Other comprehensive income	18,375	40,966	16,840
Comprehensive income	$242,428	$211,857	$164,552

As described in Note 5 of these financial statements, the Company reclassified the unrealized loss on its investment in Variagenics, Inc. to other income (expense) in the consolidated statements of operations in 2002.

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, 2004, 2003 and 2002, the Company's matching contributions amounted to $3.1 million, $2.9 million and $2.7 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 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, 2004 (in thousands):

Reconciliation of Projected Benefit Obligation	2004	2003
Benefit obligation, January 1	$ 55,974	$ 43,801
Service cost	5,800	4,339
Interest cost	3,406	3,231
Employee rollovers	517	410
Actuarial loss	3,251	4,910
Disbursements	(931)	(717)
Benefit obligation, December 31	$ 68,017	$ 55,974

Reconciliation of Fair Value of Assets	2004	2003
Fair value of assets, January 1	$ 37,295	$ 24,364
Actual return (loss) on plan assets	4,834	6,160
Company contributions	10,000	7,078
Disbursements	(931)	(717)
Employee rollovers	517	410
Fair value of assets, December 31	$ 51,715	$ 37,295

Reconciliation of Funded Status, December 31	2004	2003
Projected benefit obligation	$(68,017)	$(55,974)
Fair value of plan assets	51,715	37,295
Projected benefit obligation in excess of fair value of plan assets	(16,302)	(18,679)
Unrecognized prior service cost	(731)	(830)
Unrecognized net actuarial loss	21,232	20,329
Net amount recognized at December 31	$ 4,199	$ 820
Accrued liability	$ (9,126)	$(12,932)
Minimum pension liability adjustment (Note 18)	13,325	13,752
Net amount recognized at December 31	$ 4,199	$ 820

Components of Net Periodic Pension Cost, Year Ended December 31	2004	2003	2002
Service cost	$ 5,800	$ 4,339	$ 3,480
Interest cost	3,406	3,231	2,757
Return on plan assets	(3,389)	(2,829)	(2,833)
Net amortization:			
Prior service cost	(99)	(99)	(99)
Net actuarial loss	903	394	22
Net periodic pension cost	$ 6,621	$ 5,036	$ 3,327

Reconciliation of Accrued Pension Cost	2004	2003	2002
Accrued pension cost, January 1	$(12,932)	$(15,090)	$ (6,910)
FAS 87 cost	(6,621)	(5,036)	(3,327)
Company contributions made during the year	10,000	7,078	4,336
Minimum pension liability adjustment (Note 18)	427	116	(9,189)
Accrued pension cost, December 31	$ (9,126)	$(12,932)	$(15,090)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Waters Retirement Plan were approximately $68.0 million, $60.8 million and $51.7 million, respectively, at December 31, 2004 and $56.0 million, $50.2 million and $37.3 million, respectively, at December 31, 2003.

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 $3.1 million at December 31, 2004 and 2003, and is included in long-term portion of post 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 $2.4 million and $2.3 million at December 31, 2004 and 2003, respectively, and is included in long-term portion of post retirement benefits in the consolidated balance sheets. Also included in the long-term portion of post retirement benefits is $12.8 million and $12.2 million at December 31, 2004 and 2003, respectively, relating to the liability associated with the SERP plan.

Asset Disclosure, December 31,	2004	2003
Equity securities	67%	66%
Debt securities	32%	32%
Cash and cash equivalents	1%	2%
Total	100%	100%

The retirement plan's investment policy was last amended in September 2002 to include the following asset allocation guidelines:

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

Prior to September 2002, the asset allocation targets were 72% equity and 28% fixed income. The rebalancing towards the new targets is accomplished through the investment of future contributions.

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.

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,	2004	2003	2002
Discount rate	5.75%	6.00%	6.75%
Increases in compensation levels	4.75%	4.75%	4.75%

Weighted-Average Assumptions for expense calculation, December 31,	2004	2003	2002
Discount rate	6.00%	6.75%	7.25%
Return on assets	8.00%	8.00%	9.00%
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.

During fiscal year 2005, the Company expects to contribute approximately $7.5 million to the Plan.

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, 2004 (in thousands):

Reconciliation of Projected Benefit Obligation	2004	2003
Benefit obligation, January 1	$17,102	$13,822
Service cost	1,046	920
Interest cost	651	538
Actuarial loss	1,269	29
Disbursements	(814)	(345)
Currency impact	1,209	2,138
Benefit obligation, December 31	$20,463	$17,102

Reconciliation of Fair Value of Assets	2004	2003
Fair value of assets, January 1	$7,014	$5,166
Actual return (loss) on plan assets	754	620
Company contributions	443	482
Currency impact	529	746
Fair value of assets, December 31	$8,740	$7,014

Reconciliation of Funded Status, December 31	2004	2003
Projected benefit obligation	$(20,463)	$(17,102)
Fair value of plan assets	8,740	7,014
Projected benefit obligation in excess of fair value of plan assets	(11,723)	(10,088)
Unrecognized net actuarial loss	2,840	1,694
Net amount recognized at December 31	$ (8,883)	$ (8,394)
Prepaid cost	$ 2,033	$ 1,763
Accrued liability	(10,916)	(10,157)
Net amount recognized at December 31	$ (8,883)	$ (8,394)

Components of Net Periodic Pension Cost, Year Ended December 31	2004	2003	2002
Service cost	$1,046	$ 920	$ 738
Interest cost	651	538	485
Return on plan assets	(432)	(339)	(356)
Net amortization:			
Transition amount	—	—	320
Net actuarial loss	13	16	—
Net periodic pension cost	$1,278	$1,135	$1,187

Reconciliation of Accrued Pension Cost	2004	2003	2002
Accrued pension cost, January 1	$(8,394)	$(6,894)	$(5,503)
FAS 87 cost	(1,278)	(1,135)	(1,187)
Company contributions and direct payments to beneficiaries	1,257	829	474
Currency impact	(468)	(1,194)	(678)
Accrued pension cost, December 31	$(8,883)	$(8,394)	$(6,894)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the non-U.S. retirement plans were approximately $20.5 million, $15.9 million and $8.7 million, respectively, at December 31, 2004 and $17.1 million, $13.4 million and $7.0 million, respectively, at December 31, 2003.

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 evaluated its business activities that are regularly reviewed by the chief decision-makers for which separate discrete financial information is available.

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 ("Micromass") 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. Additionally, and as a result of the acquisitions of Creon Lab Control AG in July 2003 and NuGenesis Technologies Corporation in February 2004, Waters Division entered the laboratory informatics market ("Laboratory Informatics"), which consists of laboratory-to-enterprise scale software systems for

managing and storing scientific information collected from a wide variety of instrument test methods. 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 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,	2004	2003	2002
Net Sales:			
United States	$ 398,077	$359,450	$360,943
Europe	340,635	298,869	271,247
Japan	123,493	102,503	94,205
Asia	141,007	109,516	89,602
Other International	101,324	87,867	73,970
Total consolidated sales	$1,104,536	$958,205	$889,967

The United States category includes Puerto Rico. The Other category includes Canada, South America, Australia, India, Eastern Europe and Central 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,	2004	2003
Long-lived assets:		
United States	$105,231	$ 78,526
Europe	26,943	26,659
Japan	798	732
Asia	571	311
Other International	2,365	1,934
Total long-lived assets	$135,908	$108,162

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

21 Unaudited Quarterly Results

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$220,999	$231,752	$230,381	$275,073	$958,205
Cost of sales	94,211	95,488	95,045	113,104	397,848
Gross Profit	126,788	136,264	135,336	161,969	560,357
Selling and administrative expenses	61,611	68,679	66,743	67,219	264,252
Research and development expenses	13,560	13,790	15,106	16,786	59,242
Purchased intangibles amortization	1,028	1,027	1,179	1,008	4,242
Litigation provisions (Note 13)	1,500	—	—	—	1,500
Loss on disposal of business (Note 8)	5,031	—	—	—	5,031
Restructuring and other charges, net (Note 14)	1,214	—	(135)	(161)	918
Expensed in-process research and development (Note 7)	—	—	5,160	840	6,000
Operating Income	42,844	52,768	47,283	76,277	219,172
Other income (expense), net (Note 5)	—	—	—	(250)	(250)
Interest expense	(1,071)	255	(312)	(1,239)	(2,367)
Interest income	1,896	1,649	1,862	1,724	7,131
Income from operations before income taxes	43,669	54,672	48,833	76,512	223,686
Provision for income taxes	9,692	12,574	12,419	18,110	52,795
Net Income	$ 33,977	$ 42,098	$ 36,414	$ 58,402	$170,891
Net income per basic common share	$ 0.27	$ 0.34	$ 0.30	$ 0.48	$ 1.39
Weighted average number of basic common shares	126,308	123,610	122,240	120,961	123,189
Net income per diluted common share	$ 0.26	$ 0.33	$ 0.29	$ 0.47	$ 1.34
Weighted average number of diluted common shares and equivalents	130,785	128,252	126,709	124,784	127,579

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 lower in the first quarters of 2004 and 2003 compared to other quarters in respective calendar years due to foreign currency translation, lower spending in marketing programs and lower costs such as sales commissions and incentive plans directly related to sales volume. In addition, expenses are traditionally higher in the second quarter of each year as this is the Company's annual payroll merit increase period. Selling and administrative expenses in the fourth quarter of 2004 were higher primarily due to increased spending for Sarbanes-Oxley compliance and employee incentive plans versus the fourth quarter of 2003.

SELECTED FINANCIAL DATA

	2004	2003	2002*	2001	2000
	In thousands, except per share and employees data				
STATEMENT OF OPERATIONS DATA:					
Net sales	$1,104,536	$ 958,205	$ 889,967	$859,208	$795,071
Income from operations before income taxes	$ 285,671	$ 223,686	$ 195,411	$147,426	$210,962
Income before cumulative effect of changes in accounting principles	$ 224,053	$ 170,891	$ 152,218	$114,543	$156,113
Cumulative effect of changes in accounting principles	—	—	(4,506) [1]	—	(10,771) [2]
Net income	$ 224,053	$ 170,891	$ 147,712	$114,543	$145,342
Income per basic common share					
Income before cumulative effect of changes in accounting principles per basic common share	$ 1.87	$ 1.39	$ 1.17	$ 0.88	$ 1.22
Cumulative effect of changes in accounting principles	—	—	(0.03)	—	(0.08)
Net income per basic common share	$ 1.87	$ 1.39	$ 1.13	$ 0.88	$ 1.14
Weighted average number of basic common shares	119,640	123,189	130,489	130,559	127,568
Income per diluted common share					
Income before cumulative effect of changes in accounting principles per diluted common share	$ 1.82	$ 1.34	$ 1.12	$ 0.83	$ 1.14
Cumulative effect of changes in accounting principles	—	—	(0.03)	—	(0.08)
Net income per diluted common share	$ 1.82	$ 1.34	$ 1.09	$ 0.83	$ 1.06
Weighted average number of diluted common shares and equivalents	123,069	127,579	135,762	137,509	136,743
BALANCE SHEET AND OTHER DATA:					
Cash and cash equivalents	$ 539,077	$ 356,781	$ 263,312	$226,798	$ 75,509
Working capital	$ 480,894	$ 339,835	$ 338,233	$241,738	$126,015
Total assets	$1,460,426	$1,130,861	$1,015,240	$886,911	$692,345
Long-term debt, including current maturities	$ 250,000	$ 225,000	$ —	$ —	$ —
Stockholders' equity	$ 678,686	$ 590,477	$ 665,310	$581,745	$451,781
Employees	4,199	3,894	3,587	3,483	3,158

* 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 and $3.4 million for the years ended December 31, 2001 and 2000, respectively.

(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) Effective January 1, 2000, the Company changed its method of revenue recognition for certain products requiring installation in accordance with SAB 101, "Revenue Recognition in Financial Statements." As a result, the Company recorded a cumulative effect of changes in accounting principles of $10.8 million, net of tax.

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*

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). 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, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(c) *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, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9b: ***Other Information***

On February 18, 2005, the Compensation and Management Development Committee (the "Committee") of the Board of Directors of the Company voted to amend the section of the Company's Management Incentive Plan (the "Incentive Plan") entitled "Determination of Incentive Payment" by changing the maximum annual incentive payment to any one participant in the Incentive Plan from 300% of base salary to $5,000,000. This amendment is effective for 2005 and all subsequent years unless further amended by the Committee.

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.

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, 56, 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, 53, 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.

Brian K. Mazar, 47, Senior Vice President, Human Resources, has directed Human Resources since August 1994. He joined Millipore in 1991 as Director of Human Resources with responsibility for worldwide human resources functions. From 1986 to 1991, Mr. Mazar was Director of Human Resources of GeneTrak Systems. Prior thereto, Mr. Mazar worked at Exxon Corporation and Corning, Inc.

John Ornell, 47, 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, 50, 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.

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 as of December 15, 2003. 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 waiver of a provision of the Code of Business Conduct and Ethics 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. Our 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 "Security Ownership of Certain Beneficial Owners and Management" 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, 2004 about our common stock that may be issued upon the exercise of options, warrants, and rights under our existing equity compensation plans (in thousands):

	A	B	C
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (A)
Equity compensation plans approved by security holders	11,322	$ 34.07	2,680
Equity compensation plans not approved by security holders	—	not applicable	390
Total	11,322	$ 34.07	3,070

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 35 to 76. The report of PricewaterhouseCoopers LLP, independent registered public accounting firm, dated March 15, 2005, is set forth on page 33 of this Form 10-K.

(2) Financial Statement Schedule:

WATERS CORPORATION AND SUBSIDIARIES
Schedule II — Valuation and Qualifying Accounts
For the Years Ended December 2004, 2003 and 2002
(in thousands)

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Allowance for Doubtful Accounts and Sales Returns:				
2004	$5,638	$1,503	$ (41)	$7,100
2003	$5,826	$ 847	$(1,035)	$5,638
2002	$5,077	$1,454	$ (705)	$5,826

(3) Exhibits:

Exhibit Number	Description of Document
2.1	Agreement for the Sale and Purchase of Micromass Limited dated as of September 12, 1997, between Micromass Limited, Schroder UK Buy-Out Fund III Trust I and Others, Waters Corporation and Waters Technologies Corporation. (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) (*)

Exhibit Number	Description of Document
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) (*)
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., JPMorgan Chase Bank, N.A. and other Lenders party thereto.

Exhibit Number	Description of Document
10.32	Form of Amendment to Stock Option Agreement under the Waters Corporation Second Amended and Restated 1996 Long Term Performance Incentive Plan. (*)
10.33	Stock Option Agreement, dated as of December 8, 2004 between Waters Corporation and Brian K. Mazar. (*)
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. (*)
10.36	2005 Waters Corporation Amended and Restated Management Incentive Plan. (*)
21.1	Subsidiaries of Waters Corporation.
23.1	Consent of PricewaterhouseCoopers LLP, 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.

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(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.

(*) 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 15, 2005

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 15, 2005.

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

Waters

Notice and Proxy Statement
2005

Waters

April 2, 2005

Dear Stockholder:

On behalf of the Board of Directors of Waters Corporation ("Waters" or the "Company"), I cordially invite you to attend the Annual Meeting of Stockholders (the "Meeting") of the Company to be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757 on May 4, 2005 at 11:00 a.m., local time.

The notice of Meeting, proxy statement and proxy card from Waters are enclosed. You may also read the notice of Meeting and the proxy statement on the Internet at **http://www.waters.com/stockholder.**

We encourage you to conserve natural resources, as well as reduce printing and mailing costs, by signing up for electronic delivery of Waters stockholder communications. For more information, see "Electronic Delivery of Waters Stockholder Communications" under the table of contents.

The matters scheduled to be considered at the Meeting are (i) to elect directors to serve for the ensuing year and until their successors are elected, (ii) to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005, (iii) to approve a proposal to amend the 2003 Equity Incentive Plan to increase the number of shares available for issuance thereunder by 3,800,000 shares from 5,697,290 to 9,497,290, (iv) to ratify and approve the material terms of the Company's Management Incentive Plan; and (v) to consider and act upon any other matters which may properly come before the Meeting or any adjournment thereof. These matters are more fully explained in the attached proxy statement which you are encouraged to read in its entirety.

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

We hope you will be able to attend the Meeting.

Sincerely,

Douglas Berthiaume

Douglas A. Berthiaume
Chairman, President and
Chief Executive Officer

Waters

WATERS CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Notice is hereby given that the Annual Meeting of Stockholders (the "Meeting") of Waters Corporation ("Waters" or the "Company") will be held at Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757 on May 4, 2005 at 11:00 a.m., local time, for the following purposes:

1. To elect directors to serve for the ensuing year and until their successors are elected;
2. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005;
3. To approve a proposal to amend the 2003 Equity Incentive Plan to increase the number of shares available for issuance thereunder by 3,800,000 shares from 5,697,290 to 9,497,290;
4. To ratify and approve the material terms of the Company's Management Incentive Plan; and
5. To consider and act upon any other matters which may properly come before the Meeting or any adjournment thereof.

In accordance with the provisions of the Company's bylaws, the Company's Board of Directors has fixed the close of business on March 15, 2005 as the record date for the determination of the holders of Common Stock entitled to notice of and to vote at the Meeting.

By order of the Board of Directors

Mark T. Beaudouin
Vice President
General Counsel and Secretary

Milford, Massachusetts
April 2, 2005

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ELECTRONIC DELIVERY OF WATERS STOCKHOLDER COMMUNICATIONS

We encourage you to conserve natural resources, as well as reduce printing and mailing costs, by **signing up for electronic delivery of Waters stockholder communications.** With electronic delivery, you will receive documents such as the Annual Report and the Proxy Statement as soon as they are available, and you can easily submit your stockholder votes online. Electronic delivery can also help reduce the number of bulky documents in your personal files and eliminate duplicate mailings. To sign up for electronic delivery:

- If you are a registered holder (you hold your Waters shares in your own name through Waters' transfer agent, The Bank of New York, or you have stock certificates), visit **http://www.stockbny.com** to enroll and vote your shares online.
- If you are a beneficial holder (your shares are held by a brokerage firm, a bank or a trustee), visit **http://www.icsdelivery.com** to enroll for future electronic delivery of shareholder information. Please have your 12-digit control number, which you will find on your Voting Instruction Form, and follow the instructions provided to enroll.

Your electronic delivery enrollment will be effective until cancelled. If you have questions about electronic delivery please email Waters Corporation at **waters_proxy@waters.com.**

VOTING

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

WATERS CORPORATION
34 Maple Street
Milford, Massachusetts 01757

PROXY STATEMENT
Annual Meeting of Stockholders
May 4, 2005, 11:00 a.m.

The Proxy is solicited by the Board of Directors (the "Board") of Waters Corporation ("Waters" or the "Company") for use at the 2005 Annual Meeting of Stockholders (the "Meeting") to be held on May 4, 2005 at 11:00 a.m. at the Company's headquarters located at 34 Maple Street, Milford, Massachusetts 01757. Solicitation of the Proxy may be made through officers and regular employees of the Company by telephone or by oral communications with stockholders following the original solicitation period. No additional compensation will be paid to such officers and regular employees for Proxy solicitation. The Altman Group, Inc. has been hired by the Company to do a broker solicitation for a fee of $5,500 plus reasonable out-of-pocket expenses. Expenses incurred in connection with the solicitation of Proxies will be borne by the Company.

VOTING MATTERS

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

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

Any stockholder returning the enclosed Proxy has the power to revoke such Proxy prior to its exercise either by voting by ballot at the Meeting, by executing a later dated Proxy or by delivering a signed written notice of the revocation to the office of the Secretary of the Company before the Meeting begins. The Proxy will be voted at the Meeting if the signer of the Proxy was a stockholder of record on March 15, 2005 (the "Record Date").

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

As of the Record Date, there were 117,741,488 shares of Common Stock outstanding and entitled to vote at the Meeting. Each outstanding share of Common Stock is entitled to one vote. This Proxy Statement is first being sent to the stockholders on or about April 2, 2005. A list of the stockholders entitled to vote at the Meeting will be available for inspection at the Meeting for proper purposes relating to the Meeting.

MATTERS TO BE ACTED UPON

1. ELECTION OF DIRECTORS

The Board recommends that the stockholders vote FOR each nominee for Director set forth below. Seven Directors are to be elected at the Meeting, each to hold office until his successor is elected and qualified or until his earlier resignation, death or removal. Philip Caldwell, a Director of the Company since 1994, is

retiring from the Board effective as of May 4, 2005, the date of the Meeting and, therefore, he is not standing for re-election. Each nominee listed below is currently a Director of the Company. It is intended that the Proxies in the form enclosed with this Proxy Statement will be voted for the nominees set forth below unless stockholders specify to the contrary in their Proxies or specifically abstain from voting on this matter.

The following information pertains to the nominees, their principal occupations for the preceding five-year period, certain directorships and their ages as of April 2, 2005.

Douglas A. Berthiaume, 56, has served as Chairman of the Board since February 1996 and has served as President, Chief Executive Officer and a Director of the Company since August 1994 (except from January 2002 to March 2003, during which he did not serve as President). From 1990 to 1994, Mr. Berthiaume served as President of the Waters Chromatography Division of Millipore Corporation, the predecessor business of the Company, which was purchased in 1994. Mr. Berthiaume is the Chairman of the Children's Hospital Trust Board, and a Trustee of the Children's Hospital Medical Center, The University of Massachusetts Amherst Foundation, and a Director of Genzyme Corporation.

Joshua Bekenstein, 46, has served as a Director of the Company since August 1994. He has been a Managing Director of Bain Capital, Inc. since January 1993 and a General Partner of Bain Capital, Inc. since its inception in 1987. Mr. Bekenstein is a Director of KB Toys, Shoppers Drug Mart, Inc., Bombardier Recreational Products, Inc. and Bright Horizons Family Solutions, Inc.

Michael J. Berendt, Ph.D., 56, has served as a Director of the Company since March 1998. Dr. Berendt is a Managing Director of Research Corporation Technologies, a position he assumed in December 2004. From November 2000 to December 2004, Dr. Berendt served as Managing Director, Life Sciences Group, of AEA Investors, Inc. Prior to joining AEA, Dr. Berendt was Senior Vice President of Research for the Pharmaceutical Division of Bayer Corporation from November 1996 to November 2000. From January 1996 to November 1996, Dr. Berendt served as Vice President, Institute for Bone & Joint Disorders and Cancer, Bayer Corporation, Pharmaceutical Division. From October 1993 to January 1996, Dr. Berendt served as Director, Institute for Bone & Joint Disorders and Cancer, Bayer Corporation, Pharmaceutical Division. Prior to joining Bayer, Dr. Berendt served as Group Director of Drug Discovery at Pfizer, Inc., and was responsible for immunology, pulmonary, inflammation and antibiotic research. Dr. Berendt has served as a member of the Board of Directors of Onyx Pharmaceuticals, Inc. and Myriad Genetics, Inc.

Edward Conard, 48, has served as a Director of the Company since August 1994. Mr. Conard has been a Managing Director of Bain Capital, Inc. since March 1993. Mr. Conard was previously a Director of Wasserstein Perella and Company, an investment banking firm that specializes in mergers and acquisitions, and a Vice President of Bain & Company heading up the firm's operations practice area. Mr. Conard is a Director of Innophus, Inc., Alliance Laundry, Inc., US Synthetic, Inc., Unisource Worldwide, Inc. and Broder Brothers.

Laurie H. Glimcher, M.D., 53, has served as a Director of the Company since January 1998. Dr. Glimcher has been a Professor of Immunology and Medicine at the Harvard School of Public Health and Harvard Medical School since 1990. Dr. Glimcher is a Director of Bristol Myers Squibb Company.

William J. Miller, 59, has served as a Director of the Company since January 1998. Mr. Miller is an independent investor and consultant. From April 1996 to November 1999, Mr. Miller served as Chief Executive Officer and Chairman of the Board of Avid Corporation, where from September 1996 to January 1999 he served as President. From March 1992 to September 1995, Mr. Miller served as Chief Executive Officer of Quantum Corporation. From May 1992 to September 1995, Mr. Miller served as a member of the Board of Directors of Quantum Corporation and from September 1993 to August 1995, he served as Chairman of the Board of Directors. From 1981 to March 1992, he served in various positions at Control Data Corporation, most recently as Executive Vice President and President, Information Services. Mr. Miller is a Director of Nvidia Corporation, and Viewsonic Corporation.

Thomas P. Salice, 45, has served as a Director of the Company since July 1994. Mr. Salice is a Managing Member of Sceptra Capital Partners, LLC, a position he assumed in January 2005. From June 1989 to December 2004 Mr. Salice served in a variety of capacities with AEA Investors, Inc. including Managing

Director, President and Chief Executive Officer and most recently as Vice-Chairman from October 2002 through 2004. Mr. Salice is a Director of Agere Systems, Inc., Mettler – Toledo International, Inc. and a Trustee of Fordham University.

Required Vote: Recommendation of the Board of Directors

With respect to the election of Directors of the Company, the affirmative vote of a plurality of shares present at the Meeting in person or represented by Proxy, and entitled to vote on the matter, is necessary for the election of each of the nominees for Director listed above (i.e. the nominees receiving the greatest number of votes cast with respect to such shares will be elected). Shares for which authority to vote for the election of a nominee is withheld (so-called abstentions) will count as present for the purpose of determining whether a quorum is present and will be treated as shares present and entitled to vote. For purposes of determining the outcome of the vote, abstentions will not be treated as shares voted for any nominee. A broker "non-vote" occurs when a broker, dealer, voting trustee, bank, association or other entity that exercises fiduciary powers holding shares for a beneficial owner does not have discretionary voting power and does not receive voting instructions from the beneficial owner. Broker "non-votes" will be counted as present for the purpose of determining whether a quorum is present but will not be treated as shares present and entitled to vote on the election of Directors of the Company and will have no effect on the outcome of the vote.

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

2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected PricewaterhouseCoopers LLP, an independent registered public accounting firm, to audit the books, records and accounts of the Company for the fiscal year ending December 31, 2005. In accordance with a vote of the Audit Committee and as approved by the Board, this selection is being presented to the stockholders for ratification at the Meeting.

The affirmative vote of the majority of the shares present at the Meeting in person or represented by Proxy, and entitled to vote on the matter is required to approve the proposal. Abstentions and broker non-votes will be treated as discussed above under the caption "Election of Directors". Ratification by stockholders is not required. If the proposal is not approved by the stockholders, the Board does not plan to change the appointment for fiscal 2005, but will consider the stockholder vote in selecting auditors for fiscal 2006.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL TO RATIFY THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

3. APPROVAL OF PROPOSAL TO AMEND 2003 EQUITY INCENTIVE PLAN

On February 18, 2005, the Board adopted, subject to stockholder approval, an amendment to increase the number of shares available under the Company's 2003 Equity Incentive Plan (the "Plan") by 3,800,000 shares from 5,697,290 to 9,497,290 plus the number of any shares subject to awards granted under the Waters Corporation 1996 Long-Term Performance Incentive Plan, the Waters Corporation 1996 Non-Employee Director Stock Option Plan and the Waters Corporation 1994 Stock Option Plan which would have become available for additional awards thereunder by reason of the expiration or termination of those awards (referred to in this description as "Prior Plan Shares"). The essential features of the Plan are outlined below.

Purpose. The Plan is intended to encourage ownership of Common Stock by employees, consultants and directors of the Company and its affiliates to provide additional incentive for them to promote the success of the Company's business.

Administration. The Plan is administered by the Compensation and Management Development Committee of the Board (the "Committee"). Subject to the provisions of the Plan, the Committee has discretion to determine the employee, consultant or director to receive an award, the form of award and any

acceleration or extension of an award. Further, the Committee has complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective award agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the Plan. In addition, the Committee may delegate to an executive officer or officers the authority to grant awards to employees who are not officers, and to consultants, in accordance with applicable Committee guidelines.

Eligibility. Awards may be granted to any employee of or consultant to one or more of the Company and its affiliates or to non-employee members of the Board or of any board of directors (or similar governing authority) of any affiliate. No more than one million (1,000,000) shares of Common Stock may be issuable to any one person in any one calendar year pursuant to awards under the Plan.

Shares Subject to the Plan. The shares issued or to be issued under the Plan are shares of the Company's common stock, $0.01 par value (the "Common Stock"), which may be authorized but unissued shares or shares held by the Company in its treasury. The Company has reserved for issuance under the Plan a maximum number of shares of Common Stock equal to 9,497,290 plus any Prior Plan Shares, but awards for Incentive Stock Options may cover no more than 9,497,290 shares.

Types of Awards. Awards under the Plan include Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Stock Appreciation Rights and Stock Grants.

Nonstatutory Stock Options and Incentive Stock Options (which are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) (together, "Stock Options") are rights to purchase Common Stock of the Company. Each Stock Option shall be evidenced by an instrument in such form as the Committee shall prescribe and shall specify (i) the exercise price, (ii) the number of shares of Common Stock subject to the Stock Option and (iii) such other terms and conditions, including, but not limited to, the method of exercise and any restrictions upon the Stock Option or the Common Stock issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

A Stock Option may be immediately exercisable or become exercisable in such installments, cumulative or non-cumulative, as the Committee may determine. A Stock Option may be exercised by the participant giving written notice to the Company, specifying the number of shares with respect to which the Stock Option is then being exercised, and accompanied by payment of an amount equal to the exercise price of the shares to be purchased. The purchase price may be paid by cash, check or, to the extent not prohibited by applicable law and subject to such conditions, if any, as the Committee may deem necessary or desirable, by delivery to the Company of shares of Common Stock, or through and under the terms and conditions of any formal cashless exercise program authorized by the Company. If the participant's employment or other association with the Company and its affiliates ends for any reason, the participant may exercise any outstanding Stock Option only for the number of shares and only during the period specified in the award agreement. Notwithstanding the foregoing, no Stock Option shall be exercisable after the tenth anniversary of the date it is granted.

Incentive Stock Options may be granted only to eligible employees of the Company or any parent or subsidiary corporation and must have an exercise price of not less than 100% of the fair market value of the Common Stock on the date of grant (110% for Incentive Stock Options granted to any 10% stockholder of the Company). Nonstatutory Stock Options must have an exercise price of not less than 100% of the fair market value of the Common Stock on the date of grant. Stock Options must have a term of not more than ten years (five years in the case of an Incentive Stock Option granted to any 10% stockholder of the Company). In the case of an Incentive Stock Option, the amount of the aggregate fair market value of Common Stock (determined at the time of grant) with respect to which Incentive Stock Options are exercisable for the first time by an employee during any calendar year (under all such plans of his employer corporation and its parent and subsidiary corporations) shall not exceed $100,000.

Awards of Restricted Stock are grants or sales of Common Stock which are subject to a risk of forfeiture. Each award of Restricted Stock shall be evidenced by an instrument in such form as the Committee shall prescribe, which instrument will specify (i) the number of shares of Common Stock to be issued to a

participant pursuant to the award and the extent, if any, to which they shall be issued in exchange for cash, other property or services or any combination thereof, and (ii) such other terms and conditions as the Committee, in its discretion, shall establish. Except with respect to performance-based awards of Restricted Stock which have a minimum restriction period of 1 year, or as the Committee may recommend and the Board may approve, no award of Restricted Stock may have a restriction period of less than 3 years. Unless the Committee shall provide otherwise for any Award of Restricted Stock, upon termination of a participant's employment or other association with the Company and its affiliates for any reason during the restriction period, all shares of Restricted Stock still subject to risk of forfeiture shall be forfeited or otherwise subject to return to or repurchase by the Company on the terms specified in the award agreement.

Stock Appreciation Rights are rights to receive (without payment to the Company) cash, property or other forms of payment, or any combination thereof, as determined by the Committee, based on the increase in the value of the number of shares of Common Stock specified in the Stock Appreciation Right. Each award of a Stock Appreciation Right shall be evidenced by an instrument in such form as the Committee shall prescribe, which instrument will specify (i) a "hurdle" price in an amount determined by the Committee, but not less than 100% of the fair market value of the Common Stock on the date of grant, (ii) the number of shares of Common Stock subject to such award, and (iii) such other terms and conditions as the Committee, in its discretion, shall establish. A Stock Appreciation Right may be exercised in accordance with such written instrument and at such time or times and in such installments as the Committee may establish. If the participant's employment or other association with the Company and its affiliates ends for any reason, the participant may exercise any outstanding Stock Appreciation Right only for the number of shares and only during the period specified in the award agreement. Notwithstanding the foregoing, no Stock Appreciation Right shall be exercisable after the tenth anniversary of the date it is granted.

A Stock Grant is a grant of shares of Common Stock not subject to restrictions or other forfeiture conditions.

Transferability. Except as otherwise provided in the Plan, Stock Options and Stock Appreciation Rights shall not be transferable, and no Stock Option, Stock Appreciation Right or interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All of a participant's rights in any Stock Option or Stock Appreciation Right may be exercised during the life of the participant only by the participant or the participant's legal representative. However, the Committee may, at or after the grant of a Nonstatutory Option provide that such Nonstatutory Option or Stock Appreciation Right may be transferred by the recipient to a family member; *provided, however,* that any such transfer is without payment of any consideration whatsoever and that no transfer of a Nonstatutory Option or Stock Appreciation Right shall be valid unless first approved by the Committee, acting in its sole discretion.

Effect of Significant Corporate Event. In the event of any change in the outstanding shares of Common Stock through merger, consolidation, sale of all or substantially all the property of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other distribution with respect to such shares of Common Stock, an appropriate and proportionate adjustment will be made in (i) the maximum numbers and kinds of shares subject to the Plan and the Plan limits, (ii) the numbers and kinds of shares or other securities subject to the then outstanding awards, (iii) the exercise or hurdle price for each share or other unit of any other securities subject to then outstanding Stock Options or Stock Appreciation Rights (without change in the aggregate purchase or hurdle price as to which Stock Options or Stock Appreciation Rights remain exercisable), and (iv) the repurchase price of each share of Restricted Stock then subject to a risk of forfeiture in the form of a Company repurchase right. In the event of a change in control (which may include an acquisition) of the Company, any Restricted Stock Award still then subject to a Risk of Forfeiture and any outstanding Stock Option or Stock Appreciation Right not then exercisable in full shall fully vest. Upon dissolution or liquidation of the Company, other than as part of an acquisition or similar transaction, each outstanding Stock Option or Stock Appreciation Right shall terminate, but the participant shall have the right, immediately prior to the dissolution or liquidation, to exercise the Stock Option or Stock Appreciation Right to the extent exercisable on the date of dissolution or liquidation.

Amendments to the Plan. The Board may amend or modify the Plan at any time subject to the rights of holders of outstanding awards on the date of amendment or modification; *provided, however,* that (i) no material amendment which is to the benefit of management or the Board shall be effective unless approved by stockholders of the Company, and (ii) no amendment shall be effective unless approved by the stockholders of the Company if the failure to obtain stockholder approval would adversely affect the Plan's compliance with applicable law. Further, no award of Stock Options may be amended to affect the exchange or pricing of such Stock Options without the approval of the stockholders of the Company.

Summary of Tax Consequences. The following is a brief and general discussion of the federal income tax rules applicable to awards granted under the Plan.

Nonstatutory Stock Options. There are no Federal income tax consequences to the Company or the participants upon grant of Nonstatutory Stock Options. Upon the exercise of such an Option, (i) the participant will recognize ordinary income in an amount equal to the amount by which the fair market value of the Common Stock acquired upon the exercise of such Option exceeds the exercise price, if any, and (ii) the Company will receive a corresponding deduction. A sale of Common Stock so acquired will give rise to a capital gain or loss equal to the difference between the fair market value of the Common Stock on the exercise and sale dates.

Incentive Stock Options. Except as noted at the end of this paragraph, there are no Federal income tax consequences to the Company or the participant upon grant or exercise of an Incentive Stock Option. If the participant holds shares of Common Stock purchased pursuant to the exercise of an Incentive Stock Option for at least two years after the date the Option was granted and at least one year after the exercise of the Option, the subsequent sale of Common Stock will give rise to a long-term capital gain or loss to the participant and no deduction will be available to the Company. If the participant sells the shares of Common Stock within two years after the date an Incentive Stock Option is granted or within one year after the exercise of an Option, the participant will recognize ordinary income in an amount equal to the difference between the fair market value at the exercise date and the Option exercise price, and the Company will be entitled to an equivalent deduction, and any additional gain or loss will be a capital gain or loss. Some participants may have to pay alternative minimum tax in connection with exercise of an Incentive Stock Option.

Restricted Stock. A participant will generally recognize ordinary income on receipt of an award of Restricted Stock when his or her rights in that award become substantially vested, in an amount equal to the amount by which the then fair market value of the Common Stock acquired exceeds the price he or she has paid for it, if any. Recipients of Restricted Stock may, however, within 30 days of receiving an award of Restricted Stock, choose to have any applicable risk of forfeiture disregarded for tax purposes by making an "83(b) election." If the participant makes an 83(b) election, he or she will have to report ordinary income equal to the difference between the value of the shares and the price paid for the shares, if any, at the time of the transfer of the Restricted Stock.

Stock Appreciation Rights. A participant will generally recognize ordinary income on receipt of cash or other property pursuant to an award of Stock Appreciation Rights.

Stock Grants. A participant will generally recognize ordinary income on receipt of a Stock Grant equal to the value of the Common Stock subject to such Stock Grant.

With respect to awards of Restricted Stock, Stock Appreciation Rights and Stock Grants, whenever a participant is required to report ordinary income the Company will be entitled to deduct the same amount in computing its taxable income.

For purposes of the foregoing summary, it is assumed that no award will constitute in any part "deferred compensation" as that term is defined in the recently-enacted Section 409A of the Code, or, if any award were to constitute deferred compensation, its terms would comply with the requirements of Section 409A (in general, by limiting any flexibility in the time of payment). For example, a Stock Appreciation Right that could be settled in cash instead of stock, would constitute deferred compensation. If an award includes deferred compensation, and its terms do not comply with the requirements of Section 409A, then the award

will be taxable when it is earned and vested (even if not then payable) and the recipient will be subject to an additional 20% tax.

Although the foregoing summarizes the essential features of the Plan, it is qualified in its entirety by reference to the full text of the Plan as approved and amended.

The benefits or amounts under the Plan that will be received by or allocated to each of (i) the officers listed in the Summary Compensation Table, (ii) each of the nominees for election as a director, (iii) all directors of the Company who are not executive officers of the Company as a group, (iv) all present executive officers of the Company as a group, and (v) all employees of the Company, including all other current officers, as a group are not determinable.

Required Vote: Recommendation of the Board of Directors. The affirmative vote of the majority of the shares present at the Meeting in person or represented by Proxy, and entitled to vote on the matter, is required to approve the proposal. Abstentions and broker non-votes will be treated as discussed above under the caption "Election of Directors."

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

4. RATIFICATION AND APPROVAL OF MANAGEMENT INCENTIVE PLAN

Section 162(m) of the Code ("Section 162(m)") generally limits the tax deduction available to public companies for annual compensation paid to senior executives in excess of $1 million unless the compensation qualifies as "performance-based compensation." In order for compensation to qualify as "performance-based compensation", it must meet the following criteria: (i) such compensation must be payable solely on account of the attainment of one or more pre-established, objective performance goals; (ii) the performance goal under which such compensation is paid must be established by a compensation committee composed solely of two or more "outside directors"; (iii) the material terms of the performance goal under which such compensation is paid must be disclosed to and approved by the stockholders before payment; and (iv) the compensation committee must certify that the performance goals have been satisfied before payment. The Company's Management Incentive Plan (the "Incentive Plan") satisfies by its terms the requirement set forth in clause (i) above, and the Compensation and Management Development Committee intends to satisfy the requirements set forth in clauses (ii) and (iv) above. Accordingly, in order to ensure compliance with Section 162(m), the Company's stockholders are asked to approve the material terms of the Incentive Plan described below as such terms apply to the senior executives of the Company. Failure of the stockholders to approve the material terms of the Plan will not prevent the Company from making incentive payments under the Incentive Plan in the event that the Company achieves the Performance Objectives (as defined below). However, the tax deduction for such incentive payments will not be available to the Company to the extent that the annual compensation paid to each senior executive exceeds $1 million.

Purpose. The purpose of the Incentive Plan is to promote the interests of the Company and its stockholders by providing certain key employees of the Company with an incentive to (i) join and/or remain in the service of the Company, (ii) maintain and enhance the long-term performance and profitability of the Company and (iii) acquire a proprietary interest in the success of the Company.

Administration. With respect to the Company's senior executives, the Incentive Plan is administered by the Compensation and Management Development Committee. The stockholders are being asked to approve the material terms of the Incentive Plan only as such terms pertain to such senior executives (each, a "Participant"). Within the first ninety days of each fiscal year (each a "Plan Year"), the Committee establishes the performance objective on which each Participant's incentive payment is based (the "Performance Objective"). At the conclusion of each Plan Year, the Committee reviews the audited results of the Company's performance against each Participant's Performance Objective and determines the incentive payment earned by each Participant.

Duration. The Incentive Plan may be modified or terminated at any time at the discretion of the Board. To qualify under Section 162(m) of the Code, any material modifications of the Incentive Plan require stockholder approval.

Determination of Incentive Payment. Within the first ninety days of each Plan Year, the Committee establishes a schedule of potential incentive payments for each Participant which are based upon the Company's achievement of certain criteria and targets, as determined by the Committee on an annual basis. Each Participant becomes eligible to receive an incentive payment if the Company achieves a minimum level of performance with respect to such criteria and targets. The amount of the incentive payment to each Participant may increase if the Company exceeds such criteria and targets. On February 18, 2005, the Committee voted to amend the Incentive Plan by changing the maximum annual incentive payment to any one Participant in the Incentive Plan from 300% of base salary to $5,000,000. This amendment is effective for 2005 and all subsequent years unless further amended by the Committee.

Business Criteria on which the Performance Objectives are Based. The business criteria on which each Participant's Performance Objective is based are determined by the Compensation Committee each Plan Year. Such business criteria may in the future include, but are not limited to, objectively verifiable growth in the Company's financial performance, or objectively verifiable improvement in the Company's income statement or balance sheet position determined based on the Company's audited financial statements and its financial records at the end of each Plan Year.

Summary of Tax Consequences. The following is a brief and general discussion of the federal income tax rules applicable to the receipt of an incentive payment under the Incentive Plan. In the tax year during which each Participant receives an incentive payment under the Incentive Plan, such Participant recognizes ordinary income in the amount of such incentive payment. The Company generally will have a deduction in the same amount as the ordinary income recognized by each Participant in the Company's tax year in which such incentive payment is accrued by the Company. For purposes of the foregoing summary, it is assumed that no incentive payment will constitute in any part "deferred compensation" as that term is defined in Section 409A of the Code or, if any incentive payment were to constitute deferred compensation, its terms would comply with the requirements of Section 409A (in general, by limiting any flexibility in the time of payment). If an incentive payment includes deferred compensation, and its terms do not comply with the requirements of Section 409A, then the incentive payment will be taxable when it is earned and vested (even if not then payable) and the recipient will be subject to an additional 20% tax.

Required Vote: Recommendation of the Board of Directors. The affirmative vote of the majority of the shares present at the Meeting in person or represented by Proxy, and entitled to vote on the matter, is required to approve the proposal. Abstentions and broker non-votes will be treated as discussed above under the caption "Election of Directors."

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

5. OTHER BUSINESS

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

DIRECTORS MEETINGS AND COMPENSATION

Directors Meetings

The Board held five meetings during the year ended December 31, 2004. The Board has determined that each Director other than Mr. Berthiaume, the Company's Chairman, President and Chief Executive Officer, has no material relationship with the Company and otherwise qualifies as "independent" under applicable listing standards of the New York Stock Exchange.

The Nominating and Corporate Governance Committee, which was formed as of July 10, 2001 and currently consists of Mr. Philip Caldwell (Chairman), Dr. Laurie H. Glimcher, Mr. Thomas Salice and Dr. Michael J. Berendt, recommends candidates for membership on the Board and recruits such candidates for membership on the Board. As a consequence of Mr. Caldwell's retirement from the Board, the composition of various Board Committees will be revised as discussed further in this Proxy Statement. The responsibilities of the Nominating and Corporate Governance Committee are to supervise the nominations and elections of members of the Board. The Nominating and Corporate Governance Committee may, as it deems appropriate, give consideration to any candidates suggested by the stockholders of the Company. The Nominating and Corporate Governance Committee also develops and recommends to the Board the Corporate Governance Guidelines for the Company. The charter of the Nominating and Corporate Governance Committee is available at the Company's website at **http://www.waters.com** under the caption About Waters > Corporate Information > Corporate Governance.

The Audit Committee, which currently consists of Messrs. Bekenstein (Chairman), Caldwell and Salice, oversees the activities of the Company's independent registered public accounting firm. The Audit Committee recommends the engagement of the independent registered public accounting firm, and performs certain other functions pursuant to its charter, a copy of which is attached to this Proxy Statement as Exhibit A.

The Compensation and Management Development Committee, which currently consists of Messrs. Conard, Miller, and Salice (Chairman), approves the compensation of executives of the Company, makes recommendations to the Board with respect to standards for setting compensation levels and administers the Company's incentive plans.

During fiscal year 2004, each of the Company's Directors participated in excess of 75% of the aggregate of the meetings of the Board and the meetings of committees of the Board of which such Director was a member. During fiscal year 2004, the Compensation and Management Development Committee met three times, the Audit Committee met eight times and the Nominating and Corporate Governance Committee met two times. The Company does not have a formal policy, but encourages Director attendance at annual stockholder meetings. All but one Director attended the 2004 annual meeting.

Compensation of Directors

Directors who are full-time employees of the Company receive no additional compensation for serving on the Board or its committees. For services performed in 2004, outside Directors each received a retainer of $30,000 for the year, $1,000 for each Board meeting attended, $1,000 for each committee meeting attended, an annual grant of 4,000 non- qualified stock options and 1,000 shares of restricted stock under the Company's 2003 Equity Incentive Plan. Each committee chairman received a retainer of $3,000 for 2004. For services performed in the year 2005, outside Directors each will receive a retainer of $30,000 for the year, $1,000 for each Board meeting attended, $1,000 for each Nominating and Compensation and Management Development Committee meeting attended, $2,500 for each Audit Committee attended, an annual grant of stock options and restricted stock. In addition, a committee chairman will receive a retainer of $4,000 for the year. All Directors are reimbursed for expenses incurred in connection with their attendance at meetings.

CORPORATE GOVERNANCE

During 2004, the Nominating and Corporate Governance Committee of the Board designed and implemented a comprehensive evaluation of the Board and each of its Committees. The evaluation, in the form of a questionnaire, was circulated to all members of the Board and Committees in September 2004. The Company's General Counsel in conjunction with outside counsel received all of the questionnaires, compiled the results and circulated them to the Board and each Committee for discussion and analysis in December, 2004. It is the intention of the Nominating and Corporate Governance Committee to engage in this process annually.

Increasingly, shareholders of public companies are focusing on the amount of equity ownership by directors and officers of the companies in which they invest. In order to more closely align the interests of the Company's shareholders with those of management, during 2004 the Nominating and Corporate Governance Committee considered and recommended to the Board minimum stock ownership guidelines for members of the Board and the Company's executive officers. These guidelines, which were approved by the Board in February, 2004, provide for the accumulation by the Chief Executive Officer of common stock of the Company equal to five (5) times his base salary over a three year period, which requirement would also apply to any successor to the Chief Executive Officer. Additionally, members of the Company's Executive Committee, Messrs. Caputo, Mazar, Ornell and Beaudouin, are each required to accumulate common stock of the Company equal to two (2) times their base salary over a five year period. Pursuant to the guidelines, members of the Board are required to accumulate a minimum of 5,000 shares of common stock of the Company over a five (5) year period. For purposes of accumulation of minimum stock ownership, grants of restricted stock by the Company to such executives or to members of the Board shall apply towards satisfaction of the guidelines.

Also, in 2004, the Nominating and Corporate Governance Committee voted to recommend that the Board adopt a "lead director" to preside over executive sessions of the Board and to provide a focal point for and to facilitate communication among outside Directors, Company management and Company shareholders. In May, 2004, the Board accepted the recommendation of the Nominating and Corporate Governance Committee and elected Thomas P. Salice as the Company's lead director. Mr. Salice will serve in such capacity for a two year term at which point another of the members of the Board will be elected to serve as lead director.

During 2004, the Nominating and Corporate Governance Committee continued to review the Company's corporate governance practices, Board committee charters and overall governance structure in light of the Sarbanes-Oxley Act of 2002 and new rules and regulations adopted by the Securities and Exchange Commission ("SEC") and the New York Stock Exchange. Previously, in September 2003, the Board approved a number of new or revised corporate governance documents in order to ensure the Company's continued compliance with applicable law, rules and regulations. In particular, the Board adopted a revised Audit Committee charter, which is attached hereto as Exhibit A, and revised charters for its Compensation and Management Development Committee and its Nominating and Corporate Governance Committee. The Board also adopted Corporate Governance Guidelines, a Code of Business Conduct and Ethics for employees, executive officers and Directors and a "Whistleblower" policy regarding the treatment of complaints on accounting, internal accounting controls and auditing matters. All of these documents are available on the Company's website at **http://www.waters.com** under the caption About Waters > Corporate Information > Corporate Governance and a copy of any of them may be obtained, without charge, upon written request to the Company, c/o Secretary, 34 Maple Street, Milford, MA 01757.

The Nominating and Corporate Governance Committee is currently comprised of four members: Philip Caldwell, Chairman; Thomas P. Salice; Dr. Laurie H. Glimcher and Dr. Michael J. Berendt. As a consequence of Mr. Caldwell's retirement from the Board, in January, 2005 the Committee voted to recommend to the full Board changes to the composition of the Committee, which recommendations were accepted by the Board at its February, 2005 meeting. Therefore, effective as of May 4, 2005, the date of the Meeting, the Nominating and Corporate Governance Committee will be comprised of the following Members: Michael J. Berendt, Chairman, Thomas P Salice and Dr. Laurie H. Glimcher. The Committee has a charter,

which is available on the Company's website indicated above. Each of the members of the Nominating and Corporate Governance Committee are independent, as such term is defined in the listing standards of the New York Stock Exchange.

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

The Nominating and Corporate Governance Committee believes that candidates for service as a Director of the Company should meet certain minimum qualifications. In selecting Directors, the Board seeks individuals who are highly accomplished in their respective fields, with superior educational and professional credentials. Candidates should satisfy the independence requirements of the SEC and the New York Stock Exchange and should have demonstrated experience in organizational leadership and management. Candidates for Director should also be of the highest moral and ethical character and integrity, consistent with the standards established by the Company.

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

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

With respect to communications with the Board on general matters, stockholders may contact the Board or any of its individual Directors by writing to Waters Corporation, c/o Secretary, 34 Maple Street, Milford, Massachusetts 01757. Any such communication should include the name and return address of the stockholder, the specific Director or Directors to whom the contact is addressed and the nature or subject matter of the contact.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Company has a qualified Audit Committee of the Board. During 2004, the Audit Committee, in conjunction with management and the independent registered public accounting firm, focused on the following items:

1. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the adequacy of Company internal controls,
2. The appropriateness of Company financial reporting and accounting processes,
3. The independence and performance of the Company's independent registered public accounting firm,
4. Company compliance with laws and regulations, and
5. Review of the Company's independent registered public accounting firm's quality control procedures.

During 2004, the Company undertook a comprehensive effort to comply with the requirements of the internal controls requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The project, which commenced during 2003, required the allocation of unprecedented resources, both human and financial, to

scope, implement and review the Section 404 compliance plan. In addition to the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, the Company retained Ernst & Young LLP, as well as other accounting firms, to assist in elements of the project. The project itself was managed primarily by the Company's Director of Internal Audit in conjunction with the Company's Chief Financial Officer and its Corporate Controller. During 2004, the Audit Committee received regular and detailed briefings from Company management as well as from PricewaterhouseCoopers LLP, on the progress of the Company's efforts to comply with Section 404. In March 2005 PricewaterhouseCoopers LLP reported to the Audit Committee that it had identified no material weaknesses in the Company's internal controls.

The Board has adopted a written charter setting out more specifically the functions that the Audit Committee is to perform. A copy of the charter is attached to this Proxy as Exhibit A. The Audit Committee held eight meetings during the fiscal year ended December 31, 2004. The Audit Committee reviewed on a quarterly basis, with members of the Company's management team, the Company's quarterly financial results prior to the release of earnings and the filing of the Company's quarterly financial statements with the SEC. For 2004, the Board determined that each of the three current members of the Audit Committee — Mr. Bekenstein (Chairman), Mr. Caldwell and Mr. Salice — is an "audit committee financial expert" as defined under applicable rules and regulations of the SEC and are "independent" as defined under the listing standards of the New York Stock Exchange and applicable rules and regulations of the SEC. As a consequence of Mr. Caldwell's retirement as a member of the Board, in January, 2005 the Nominating and Corporate Governance Committee voted to recommend to the full Board changes to the composition of the committee, which recommendations were accepted by the Board at its February, 2005 meeting. Therefore, effective as of May 4, 2005, the date of the Meeting, the Audit Committee will be comprised of the following members: Thomas P. Salice, Chairman, Edward Conard and William J. Miller. The Board has determined that each of Messrs. Salice, Conard and Miller is an "audit committee financial expert" as defined under applicable rules and regulations of the SEC and is "independent" as defined under the listing standards of the New York Stock Exchange and applicable rules and regulations of the SEC. Company management has primary responsibility for the financial statements and reporting processes. The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, audits the annual financial statements and is responsible for expressing an opinion on their conformity with generally accepted accounting principles.

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

Company management will submit to the Audit Committee for approval the list and budgeted fees of non-audit services that it recommends the Committee engage its independent registered public accounting firm to provide for the fiscal year. Company management and the Company's independent registered public accounting firm will each confirm to the Audit Committee that each non-audit service on the list is permissible under all applicable legal requirements. The Audit Committee will approve both the list of permissible non-audit services and the budgeted fees for such services. The Audit Committee will be informed routinely as to the non-audit services actually provided by the Company's independent registered public accounting firm pursuant to this pre-approval process as well as new non-audit services requesting approval.

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

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

The Committee hereby reports for the fiscal year ended December 31, 2004 that:

1. It has reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2004 with Company management,
2. It has discussed with PricewaterhouseCoopers LLP those matters required to be discussed by Statement on Auditing Standards No. 61, Codification of Statement on Auditing Standards, AU §380,

3. It has received from PricewaterhouseCoopers LLP its written disclosures and letter required by Independence Standards Board Standard No. 1, Independence Discussions with the Audit Committee, and has discussed with PricewaterhouseCoopers LLP its independence,
4. It has considered whether, and determined that, the provision of non-audit services to the Company by PricewaterhouseCoopers LLP as set forth below, was compatible with maintaining auditor independence, and
5. It has reviewed and discussed with PricewaterhouseCoopers LLP its internal quality control procedures, and any material issues raised by the most recent internal quality control review, or peer review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years.

Based on the items reported above, on March 11, 2005 the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the SEC. The recommendation was accepted by the Board on the same date.

Mr. Joshua Bekenstein Mr. Philip Caldwell Mr. Thomas P. Salice

Audit Fees

The aggregate fees for the fiscal year ended December 31, 2004 by the Company's principal accounting firm, PricewaterhouseCoopers LLP, were as follows:

		2004		2003
Audit Fees		$4,051,959		$1,343,615
Audit Related Fees		$ 80,090		$ 189,465
Tax Related Fees				
Tax Compliance	$383,892		$244,410	
Tax Planning	$229,496		$209,110	
Total Tax Related Fees		$ 613,388		$ 453,520
All Other Fees		$ —		$ —
Total		$4,745,437		$1,986,600

Audit Fees — consists of fees for the audit of the Company's financial statements, review of the interim condensed consolidated financial statements included in quarterly reports, assistance with review of documents filed with the SEC, and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation. In addition, 2004 includes $2,584,930 of fees related to the new internal control auditing requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Audit Related Fees — consists of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees". These services include employee benefit plan audits, advisory work on Section 404 of the Sarbanes-Oxley Act of 2002 prior to the attestation, acquisition-related services, and accounting consultations and reviews for various matters.

Tax Related Fees — consists of fees for tax compliance and planning services. Tax compliance includes fees for professional services related to international tax compliance and preparation. Tax planning consists primarily of fees related to the impact of acquisitions and restructuring on international subsidiaries.

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

The Audit Committee approved 100% of the services listed under the preceding captions "Audit-Related Fees," "Tax Related Fees" and "All Other Fees."

MANAGEMENT COMPENSATION

Summary Compensation Table

The following Summary Compensation Table discloses, for the fiscal years indicated, individual compensation information for Mr. Berthiaume and the four other most highly compensated executive officers (collectively, the "named executives") who were serving as executive officers at the end of fiscal year 2004.

	Annual Compensation			Long Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Securities Underlying Options (#)**	**All Other Compensation ($)**
Douglas A. Berthiaume	2004	650,000	1,950,000(2)	150,000	85,482(5)
Chairman, President and Chief	2003	617,500(1)	566,041(3)	150,000	40,493(5)
Executive Officer	2002	610,000	0(4)	—	22,302(5)
Arthur G. Caputo	2004	330,000	866,250(2)	125,000	8,518(5)
Executive Vice President and	2003	309,500(1)	206,331(3)	100,000	10,269(5)
President, Waters Division	2002	305,000	91,500(4)	60,000	7,159(5)
Mark T. Beaudouin	2004	280,000	525,000(2)	50,000	23,565(5)
Vice President, General Counsel	2003	203,500(1)(8)	201,332(6)	100,000(7)	748(5)
And Secretary					
John Ornell	2004	275,000	515,625(2)	50,000	25,279(5)
Vice President Finance and	2003	244,500(1)	159,998(3)	50,000	13,944(5)
Administration and Chief	2002	240,000	0(4)	40,000	8,124(5)
Financial Officer					
Brian K. Mazar	2004	135,000	347,200(2)	15,000	15,123(5)
Senior Vice President	2003	132,231(1)	116,875(3)	40,000	8,121(5)
Human Resources	2002	167,154	0(4)	30,000	4,759(5)

(1) A financial planning benefit was eliminated in 2003 and a one-time adjustment of $7,500 was made to Mr. Berthiaume's base salary in 2003 and a $4,500 one-time adjustment was made to the base salary of each of Mr. Beaudouin, Mr. Caputo, Mr. Mazar, and Mr. Ornell.

(2) Reflects bonus earned under the Company's Management Incentive Plan in 2004 which was paid in 2005.

(3) Reflects bonus earned under the Company's Management Incentive Plan in 2003 which was paid in 2004.

(4) Reflects bonus earned under the Company's Management Incentive Plan in 2002 which was paid in 2003.

(5) Reflects amounts contributed for the benefit of the named executive in 2004, 2003, and 2002 (if applicable), respectively, under the Waters 401(k) Restoration Plan and the Waters Employee Investment Plan and for Group Term Life Insurance coverage in excess of $50,000.

(6) Mr. Beaudouin's 2003 bonus includes $176,332 earned under the Company's Management Incentive Plan and a one-time new hire bonus in the amount of $25,000.

(7) Mr. Beaudouin's 2003 option grant reflects a new hire grant and an annual grant.

(8) Mr. Beaudouin joined the Company in April 2003.

Option Grants In Fiscal Year

The following table shows information regarding stock option grants to the named executives in fiscal year 2004:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For 10-year Option Term	
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/SH)	Expiration Date	5% ($)	10% ($)
Douglas A. Berthiaume	150,000(1)	7.60%	$47.12	12/08/2014	$4,445,027	$11,264,572
Arthur G. Caputo	125,000(1)	6.33%	$47.12	12/08/2014	$3,704,189	$ 9,387,143
Mark T. Beaudouin	50,000(1)	2.53%	$47.12	12/08/2014	$1,481,676	$ 3,754,857
John Ornell	50,000(1)	2.53%	$47.12	12/08/2014	$1,481,676	$ 3,754,857
Brian K. Mazar	15,000(2)	0.76%	$47.12	12/08/2014	$ 444,503	$ 1,126,457

(1) Option becomes exercisable with respect to 20% of the shares subject to the option on each of December 8, 2005, December 8, 2006, December 8, 2007, December 8, 2008 and December 8, 2009.

(2) Option becomes exercisable 100% on December 8, 2005.

Aggregated Option Exercises, Holdings and Year End Values for Fiscal Year 2004

The following table shows information regarding (i) the number of shares of Common Stock acquired upon exercise by the named executives of stock options in 2004 and the value realized thereby and (ii) the number and value of any unexercised stock options held by such executives as of December 31, 2004:

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FY-End Exercisable/Unexercisable	Value of Unexercised In-the Money Options at FY-End closing price of $46.79 Exercisable/Unexercisable
Douglas A. Berthiaume	2,850,960	$106,996,417	894,000/330,000	$22,518,075/$2,392,800
Arthur G. Caputo	—	—	456,824/271,000	$10,802,518/$2,404,204
Mark T. Beaudouin	—	—	20,000/130,000	$404,101/$1,616,404
John Ornell	2,500	$ 89,413	238,100/138,000	$5,148,199/$1,449,362
Brian K. Mazar	120,664	$ 4,612,985	365,000/ 83,000	$9,421,646/$1,116,362

Waters Corporation Retirement Plans

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

Pay credits range from 4.0% to 9.5% of compensation, depending on the participant’s amount of compensation and length of service with the Company. Compensation refers to pension eligible earnings of the participant (limited to $205,000 for 2004), which includes base pay, overtime, certain incentive bonuses, commissions and pre-tax deferrals, but excludes special items such as stock awards, moving expense reimbursements and employer contributions to retirement plans. Interest credits are based on the one year constant maturity Treasury Bill rate on the first business day in November of the preceding plan year plus 0.5%, subject to a 5.0% minimum and a 10.0% maximum rate.

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

The aggregate estimated annual benefit payable from the Retirement Plan and Restoration Plan combined to Mr. Beaudouin, Mr. Berthiaume, Mr. Caputo, Mr. Mazar and Mr. Ornell upon normal retirement is $41,000, $227,000, $139,000, $74,000 and $106,000, respectively. As of December 31, 2004, Mr. Beaudouin, Mr. Berthiaume, Mr. Caputo, Mr. Mazar and Mr. Ornell had approximately 1, 24, 27, 13 and 14 years of credited service, respectively, under the Retirement Plan.

The aggregate estimated annual normal retirement benefits are based on actual 2004 eligible compensation, including bonus paid in 2004. Future eligible compensation is assumed to equal the January 2005 rate of pay and future interest credits are assumed to be 5.0%.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2004 about shares of Common Stock outstanding and available for issuance under the Waters 2003 Equity Incentive Plan.

Plan category	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 the Waters 2003 Equity Incentive Plan (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	11,321,998	$34.07	2,679,990
Equity compensation plans not approved by security holders	0		0
Total	11,321,998	$34.07	2,679,990

Compensation and Management Development Committee Interlocks and Insider Participation

The Compensation and Management Development Committee currently consists of Mr. Edward Conard, Mr. William Miller, and Mr. Thomas Salice (Chairman). Prior to the Company's initial public offering in 1995, each of Mr. Conard and Mr. Salice also served as an officer of the Company.

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT

The Compensation and Management Development Committee of the Board is responsible for administering the compensation of senior executives of the Company and is comprised of three non-employee Directors, Thomas P. Salice, Chairman, Edward Conard and William J. Miller, each of whom the Board has determined is independent under applicable listing standards of the New York Stock Exchange. As a consequence of Mr. Caldwell's retirement as a member of the Board, in January, 2005 the Nominating and Corporate Governance Committee voted to recommend to the full Board changes to the composition of the committee, which recommendations were accepted by the Board at its February, 2005 meeting. Therefore, effective as of May 4, 2005, the date of the Meeting, the Compensation and Management Development Committee will be comprised of the following members: William J. Miller, Chairman, Joshua Bekenstein and Thomas P. Salice, each of whom the Board has determined is independent under applicable listing standards of the New York Stock Exchange.

The Compensation and Management Development Committee's compensation philosophy is to focus management on achieving financial and operating objectives which provide long-term stockholder value. The Company's executive compensation programs are designed to align the interest of senior management with those of the Company's stockholders. There are three key components of executive compensation: base salary,

senior management incentive bonus (annual incentive), and long-term performance based award. It is the intent of these programs to attract, motivate and retain senior executives. It is the philosophy of the Compensation and Management Development Committee to allocate a significant portion of cash compensation to variable performance-based compensation in order to align executive cash compensation with Company performance. The Compensation and Management Development Committee has utilized the services of an outside executive compensation consultant to assist it in determining the Company's executive compensation structure.

Base Salary

The base salaries for senior executives are reviewed annually by the Compensation and Management Development Committee. Salaries are based upon a combination of factors including past individual performance, competitive salary levels and an individual's potential for making significant contributions to future Company performance. Base salaries for senior executives are set at competitive to slightly less than competitive levels relative to the market for comparable positions. Base salary increases for senior executives for fiscal year 2004 were determined by the Compensation and Management Development Committee based on achievement of 2003 Company financial goals, consideration of nationally recognized salary data for comparable positions, and individual performance and responsibility.

Annual Incentive

The Incentive Plan is the variable pay program for officers and other senior executives of the Company. The purpose of the Incentive Plan is to provide added motivation and incentive to senior executives to achieve operating results based on operating budgets established at the beginning of the fiscal year. The Compensation and Management Development Committee evaluates the audited results of the Company's performance against previously established performance targets in order to determine the individual bonuses under the Incentive Plan. This plan is designed to provide total cash compensation that is competitive to slightly less than competitive relative to the market for target performance, below competitive market compensation for poor performance against targets, and substantially above competitive market compensation in times of excellent performance versus targets. For these purposes, the market is determined based upon a review of nationally recognized survey data and the compensation levels of a group of peer companies. In 2004, pursuant to the Incentive Plan, the Compensation and Management Development Committee established criteria and targets for the payment of incentive compensation to executive officers based upon achievement of earnings growth.

Long Term Performance-Based Awards

2003 Equity Incentive Plan

Stock options are an important component of senior executive compensation and the 2003 Equity Incentive Plan has been designed to motivate senior executives and other key employees to contribute to the long-term growth of stockholder value. During fiscal year 2004 stock options were granted to the Company's senior executives and other key individuals under the 2003 Equity Incentive Plan. The Compensation and Management Development Committee evaluates and authorizes awards under the Plan for all recommendations from the Company's Chief Executive Officer.

Other Compensation

The Company's senior executives are also eligible to participate in other compensation plans that are generally offered to other employees, such as the Company's savings and investment plan, retirement plan, the employee stock purchase plan, health and insurance plans. They are also eligible to participate in supplemental employee retirement plans that are available to employees who meet certain minimum earnings eligibility criteria. The Company does not offer any perquisites for the exclusive benefit of executive officers.

President and Chief Executive Officer Compensation

Mr. Berthiaume's 2004 annual base salary was based on the Compensation and Management Development Committee's evaluation of the Company's overall performance in 2003, the salaries and compensation practices of a group of peer companies, as well as data on companies of comparable size from a nationally recognized salary survey. After considering these factors, the Compensation and Management Development Committee increased Mr. Berthiaume's annual base salary for fiscal year 2004 5.26% to $650,000. The Compensation and Management Development Committee used the same process to review Mr. Berthiaume's salary at the end of fiscal year 2004, and recommended an increase for fiscal year 2005. Mr. Berthiaume declined the base salary increase for 2005.

Under the Incentive Plan, the Compensation and Management Development Committee awarded Mr. Berthiaume a bonus of $1,950,000 for fiscal year 2004. The criteria and targets for payout under the Incentive Plan were pre-established at the beginning of the fiscal year and were based on the achievement of the Company's earnings goals. Mr. Berthiaume's payout under the Management Incentive Plan is based on the Company's over achievement of the 2004 earnings goals which generated a payout to Mr. Berthiaume of 300% of his base salary, the maximum award payable under the plan. On February 18, 2005, the Compensation and Management Development Committee voted to amend the Incentive Plan by changing the maximum annual incentive payment to any one participant in the Incentive Plan from 300% of base salary to $5,000,000. This amendment is effective for 2005 and all subsequent years unless further amended by the Committee.

During fiscal year 2004, Mr. Berthiaume received a stock option grant of 150,000 shares under the 2003 Equity Incentive Plan. The size of Mr. Berthiaume's stock option grant was determined by the Compensation and Management Development Committee based upon a review of equity grant practices of a peer group of companies, as well as a broader group of high technology companies with similar revenue and market capitalization characteristics as Waters Corporation.

Limit on Deductible Compensation

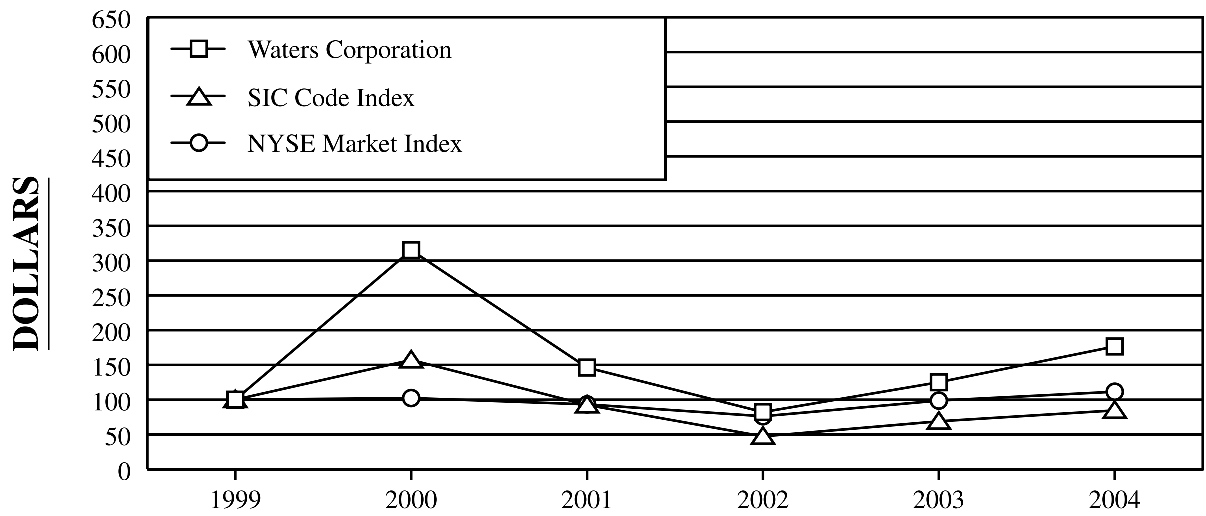
The Compensation and Management Development Committee has considered the application of Section 162(m) of the Code to the Company's compensation practices. Section 162(m) generally limits the tax deduction available to public companies for annual compensation paid to senior executives in excess of $1 million unless the compensation qualifies as performance — based compensation. The Compensation and Management Development Committee believe that payments under the Management Incentive Plan and the stock incentive plans of the Company qualify as performance — based compensation. From time to time, the Compensation and Management Development Committee will reexamine the Company's compensation practices and the effect of Section 162(m) and reserves the right to award future compensation which would not comply with the Section 162(m) requirements for non-deductibility if the Compensation and Management Development Committee concluded that this was in the Company's best interests to do so.

Mr. Edward Conard   Mr. William Miller   Mr. Thomas Salice

STOCK PRICE PERFORMANCE GRAPH

The following graph compares the cumulative total return on $100 invested as of December 31, 1999 (the last day of public trading of the Common Stock in fiscal year 1999) through December 31, 2004 (the last day of public trading of the Common Stock in fiscal year 2004) in the Common Stock of the Company, the NYSE Market Index and the SIC Code 3826 Index. The return of the indices is calculated assuming reinvestment of dividends during the period presented. The Company has not paid any dividends since its initial public offering. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN SINCE DECEMBER 31, 1999 AMONG WATERS CORPORATION, NYSE MARKET INDEX AND SIC CODE 3826 — LABORATORY ANALYTICAL INSTRUMENTS



SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below sets forth certain information regarding beneficial ownership of Common Stock as of March 15, 2005 by each person or entity known to the Company who owns beneficially five percent or more of the Common Stock, by each named executive officer and Director nominee and all executive officers and Director nominees as a group.

Name	Number of Shares of Common Stock(1)	Percentage of Outstanding Common Stock(1)
5% Stockholders		
Fidelity Investments — Boston, Massachusetts	16,133,258	13.7%
AIM Investment Management — Houston, Texas	8,571,068	7.3%
MFS Investment Management — Boston, MA	6,475,440	5.5%
Directors and Executive Officers		
Mark T. Beaudouin(2) (3)	30,573	*
Douglas A. Berthiaume(2) (4)	3,928,837	3.31%
Arthur G. Caputo(2) (5)	1,038,937	*
Brian K. Mazar(2) (6)	789,848	*
John Ornell(2) (7)	250,735	*
Joshua Bekenstein(2) (9) (10)	30,000	*
Dr. Michael J. Berendt(2) (12)	18,000	*
Philip Caldwell(2) (8) (9) (10) (12)	82,653	*
Edward Conard(2) (9) (11)	26,000	*
Dr. Laurie H. Glimcher(2) (12)	10,000	*
William J. Miller(2) (9) (11)	22,000	*
Thomas P. Salice(2) (9) (10) (11) (12)	53,100	*
All Directors and Executive Officers as a group (13 persons)	6,310,934	5.27%

* represents less than 1% of the total number of the issued and outstanding shares of Common Stock.

(1) Figures are based upon 117,741,488 shares of Common Stock outstanding as of March 15, 2005. The figures assume exercise by only the stockholder or group named in each row of all options for the purchase of Common Stock held by such stockholder or group which are exercisable within 60 days of March 15, 2004.

(2) Includes share amounts which the named individuals have the right to acquire through the exercise of options which are exercisable within 60 days of March 15, 2005 as follows: Mr. Beaudouin 30,000, Mr. Berthiaume 894,000, Mr. Caputo 456,824, Mr. Mazar 299,000, Mr. Ornell 238,100, Mr. Bekenstein 24,000, Dr. Berendt 16,000, Mr. Caldwell 24,000, Mr. Conard 24,000, Dr. Glimcher 8,000, Mr. Miller 20,000 and Mr. Salice 17,600.

(3) Includes 573 shares held in Mr. Beaudouin's ESPP plan.

(4) Includes 69,000 shares held by Mr. Berthiaume's wife, 560,832 shares held by limited partnership interests, 34,607 shares held in Mr. Berthiaume's 401K Plan and 25,252 shares held in a family trust. Mr. Berthiaume disclaims beneficial ownership for the shares held by his wife, the shares held in a family trust and the shares held by the limited partnership interests.

(5) Includes 100,669 shares held in Mr. Caputo's 401K Plan account and 1,840 shares held by his daughters, for which Mr. Caputo disclaims beneficial ownership.

(6) Includes 50,416 shares held in Mr. Mazar's 401K and ESPP plans and 180,948 shares held in a family trust for which Mr. Mazar disclaims beneficial ownership.

(7) Includes 9,631 shares held in Mr. Ornell's 401K and ESPP plans and 3,000 shares held by his daughters for which Mr. Ornell disclaims beneficial ownership.

(8) Includes 56,653 shares held in trust for Mr. Caldwell's wife, for which shares he disclaims beneficial ownership.

(9) Excludes deferred compensation in the form of phantom stock, receipt of which may be, at the election of the Director, on a specified date at least six (6) months in the future or upon his or her cessation of service as a Director of the Company.

(10) Member of the Audit Committee.

(11) Member of the Compensation and Management Development Committee.

(12) Member of the Nominating and Corporate Governance Committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Change of Control Agreements

The Company and Messrs. Berthiaume, Beaudouin, Caputo, Ornell and Mazar are parties to an Executive Change of Control/Severance Agreement dated February 24, 2004. Under the terms of the agreement, if any such Officer's employment is terminated without cause during the period beginning 9 months prior to, and ending 18 months following, a "change of control" of the Company (as defined in the agreement), or such officer terminates his employment "for good reason" (as defined in the agreement) during the 18 month period following a change of control of the Company, such Officer would be entitled to receive (i) a lump sum cash payment equal to 12 months of his monthly salary plus the bonus that would have been payable to him during the 12 month period following termination, (ii) accelerated vesting of stock options, restricted stock grants and capital accumulation benefits and (iii) continued insurance benefit coverage substantially similar to the coverage he had been receiving prior to any such termination. The agreement further provides that the benefits will be supplemented by an additional payment to "gross up" such Officer for any excise tax under the "parachute payment" tax provisions of the Internal Revenue Code.

Loans to Executive Officers

At December 31, 2004 there were no loans outstanding due from executive officers. In compliance with the Sarbanes-Oxley Act of 2002, the Company no longer makes loans to its executive officers.

Indemnification of Directors and Officers

The Company provides indemnification for its Directors and executive officers in addition to the indemnification provided for in the Company's Certificate of Incorporation and Amended and Restated Bylaws.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Federal securities laws require the Company's Directors and officers, and persons who own more than ten percent of the Common Stock, to file with the Securities and Exchange Commission, the New York Stock Exchange and the Secretary of the Company initial reports of ownership and reports of changes in ownership of the Common Stock.

To the Company's knowledge, based solely on review of the copies of such reports and written representations furnished to the Company that no other reports were required, none of the Company's officers, Directors and greater-than-ten-percent beneficial owners failed to file on a timely basis during the fiscal year ended December 31, 2004 reports required by Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

STOCKHOLDER PROPOSALS

Proposals of stockholders to be presented at the 2006 Annual Meeting of Stockholders must be received by the Secretary of the Company by December 3, 2005 to be considered for inclusion in the Company's Proxy Statement and form of Proxy relating to that meeting. It is anticipated that the 2006 Annual Meeting will be scheduled on or about May 4, 2006. Notice of a stockholder proposal submitted outside the process of Rule 14a-8 promulgated by the SEC under the Exchange Act shall be considered untimely if not received by the Company by February 16, 2006.

EXHIBIT A

AUDIT COMMITTEE CHARTER
OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

Purpose

The purpose of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board") of Waters Corporation (the "Company") in ensuring that management is maintaining internal controls adequate to provide reasonable assurance that assets are safe-guarded, transactions are properly executed and recorded, generally accepted accounting principles are consistently applied, and that there is compliance with corporate policies for conducting business. The Committee shall assist the Board in overseeing the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications and independence, and the performance of the Company's internal audit function and independent registered public accounting firm. In doing so, it is the goal of the Committee to maintain free and open communication among the Committee, independent registered public accounting firm, Director of Internal Audit and management of the Company.

The function of the Committee is oversight. The Committee relies on the expertise and knowledge of the Company's management, the internal auditor, and the independent registered public accounting firm in carrying out its oversight responsibilities. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and the maintenance of appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for planning and carrying out proper annual audits and quarterly reviews of the Company's financial statements and reports directly to the Committee. The Committee reports regularly to the Board.

The Committee shall perform such functions, exercise such powers, and consult with such persons as may be required to fulfill the responsibilities of the Committee or additional responsibilities, which may be delegated to it from time to time by the Board. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. The Committee shall have the authority, without seeking Board approval, to engage outside advisors or consultants, including legal, accounting, or other advisors as it deems necessary to carry out its duties, and shall be entitled to rely on advice, information, opinions, reports, or statements, including financial statements and other financial data, provided or prepared by officers or employees of the Company or such outside advisors or consultants. The Committee shall receive appropriate funding, as it determines, from the Company for payment of compensation to such outside advisors or consultants.

The Company shall make this Charter available on its website at **www.waters.com**. The Company shall disclose such availability in its Annual Report on Form 10-K and also shall disclose therein that it shall provide a printed copy of this Charter without charge to any Company stockholder who requests it. The Company also shall publish this Charter periodically in the Company's annual Proxy Statement, to the extent required by the rules and regulations of the Securities and Exchange Commission (the "SEC").

Composition

The Committee shall consist of no fewer than three members of the Board independent of management and the Company and free from any relationship that may interfere with the members' exercise of independent judgment from management and the Company, as prescribed by the applicable laws, regulations, and rules of the SEC and New York Stock Exchange (the "NYSE"). All members of the Committee shall be able to read and understand fundamental financial statements. The Chairman and each of the members of the Committee shall be appointed by the Board, upon the recommendation of the Nominating and Corporate Governance Committee of the Board, and shall serve an annual term. Any Committee member may be replaced by the Board at any time.

At least one member of the Committee shall be an "audit committee financial expert" as such term is defined in Rule 407 under the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act").

No Committee member may serve simultaneously on the audit committees of more than three public companies (including the Company) unless the Board first has determined that such simultaneous service would not impair the ability of such member to serve on the Committee and the Company discloses such determination in its annual Proxy Statement.

Audit Committee Authority, Responsibilities and Processes

The Committee shall meet as often as it shall determine, but not less frequently than is necessary to discharge the Committee's responsibilities as required by applicable laws and the regulations and rules of the SEC and NYSE, together as a committee and in separate sessions with representatives of management, the internal auditor, and the independent registered public accounting firm. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent registered public accounting firm to attend a meeting of the Committee or to meet with any members of, or any advisor or consultant to, the Committee.

- **Independent Audit**

1. The Committee shall have a clear understanding with management and the independent registered public accounting firm that the independent registered public accounting firm is ultimately accountable to the Committee, as representative of the Company's stockholders, and as such the independent registered public accounting firm must report directly to the Committee. The Committee shall have the sole authority to appoint (subject, if applicable, to ratification by the stockholders of the Company), retain, compensate, evaluate, terminate, and replace the independent registered public accounting firm. The Committee may receive input from the management of the Company on these matters but shall not delegate these responsibilities. The Committee shall be responsible for the oversight of the independent registered public accounting firm, including the resolution of any disagreements between management and the independent registered public accounting firm regarding financial reporting or other matters.
2. The Committee shall review and discuss the proposed scope and plans for the annual audit and significant variations that arise in the course of the examination. Also, the Committee shall discuss with management and the independent registered public accounting firm the adequacy and effectiveness of the accounting and financial controls (including any audit steps taken in light of any material control deficiencies), including the Company's system to monitor and manage business risk, and legal and ethical compliance programs.
3. The Committee shall review the independent registered public accounting firm's internal control observations and responses by the Company's management.
4. The Committee shall approve all fees and terms related to the annual independent audit and subsequent variations thereof, as well as all permissible non-audit engagements of the independent registered public accounting firm. The Committee shall pre-approve all audit and permissible non-audit services to be performed for the Company by the independent registered public accounting firm, giving effect to the "de minimis" exception for non-audit services set forth in Section 10A(a)(i)(1)(B) of the Exchange Act. The Committee may delegate this authority to the Chairman of the Committee or another subcommittee. On an annual basis, the Committee shall consider whether the provision of non-audit services by the independent registered public accounting firm, on an overall basis, is compatible with maintaining the independent registered public accounting firm's independence from management.
5. The Committee shall, at least annually, obtain and review a report by the independent registered public accounting firm describing (A) the independent registered public accounting firm's internal quality-control procedures, (B) any material issues raised by the most recent internal quality-control

review, or peer review, of the independent registered public accounting firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent registered public accounting firm, and any steps taken to deal with any such issues, and (C) (to assess the independent registered public accounting firm's independence) all relationships between the independent registered public accounting firm and the Company. The Committee shall discuss with the independent registered public accounting firm its independence from management and the Company and shall review at least annually the matters included in the written disclosures provided by the independent registered public accounting firm as required by the applicable regulatory body.

6. The Committee shall review and evaluate the lead partner of the independent registered public accounting firm and shall ensure the occurrence of any legally required rotation of lead and concurring partners and any other partners required to be rotated. The Committee may also consider whether, to assure continuing auditor independence, it would be advisable to regularly rotate the independent registered public accounting firm itself. The Committee shall present its conclusions with respect to the independent registered public accounting firm to the full Board.

7. The Committee shall recommend to the Board a policy concerning the Company's hiring of employees or former employees of the independent registered public accounting firm in accordance with the applicable rules of the SEC to ensure that the independent registered public accounting firm is independent. Specifically, prior to the hiring of any member of the audit engagement team assigned to the Company in any financial reporting oversight role of the Company the Committee shall ensure that one year has passed since completion of the next audit performed by such team subsequent to the audit in which such member participated.

8. The Committee shall review the performance and qualifications of the independent registered public accounting firm, and in so doing, take into account the opinions of management and the internal auditor. The Committee shall report to the Board its conclusions with respect to the independent registered public accounting firm.

- **Financial Reporting**

1. The Committee shall review major issues regarding accounting principles and financial statement presentations, including any significant change in the Company's selection or application of accounting principles. The Committee also shall review and discuss with the independent registered public accounting firm and management the adequacy and effectiveness of the accounting policies and practices and significant judgments that may affect the financial statements of the Company, and the selection made from among alternative accounting treatments.

2. The Committee shall consider changes in accounting standards that may significantly affect financial reporting practices.

3. The Committee shall review and discuss, with financial management and the independent registered public accounting firm, the Company's annual and quarterly financial results and the annual financial statements and quarterly financial statements, including the Company's disclosures under the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of its periodic reports, prior to the release of earnings and/or the filing or distribution of the Company's annual and quarterly financial statements and discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent registered public accounting firm. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent registered public accounting firm under generally accepted auditing standards. Based on the foregoing and on review of other information made available to the Committee, the Committee shall recommend to the Board whether the audited financial statements should be included in the Company's Annual Report on Form 10-K. The Chairman of the Committee (or an alternate if necessary) may represent the entire Committee for purposes of the quarterly review of the Company's earnings release.

4. The Committee shall meet separately with the independent registered public accounting firm to discuss the results of its audit work and the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any problems or difficulties encountered in the course of the audit work and management's response thereto, any restrictions on the scope of activities or access to requested information, and the nature and resolution of any significant disagreements with management. The Committee shall also obtain from the independent registered public accounting firm assurance that Section 10A(b) of the Exchange Act (regarding the independent registered public accounting firm's responsibilities upon detection or otherwise becoming aware of information indicating that an illegal act (whether or not perceived to have a material effect on the financial statements of the Company) has or may have occurred) has not been implicated.

5. The Committee shall discuss with management the type and presentation of information to be included in the Company's earnings press releases, including the use therein of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (i.e. , discussion of the types of information to be disclosed and the type of presentation to be made). The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

6. The Committee shall review any analyses prepared by management and/or the independent registered public accounting firm setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements. The Committee also shall review the effect of regulatory and accounting initiatives and off-balance sheet structures on the Company's financial statements.

7. The Committee shall review with management guidelines and policies with respect to the Company's approach to risk assessment and risk management, and shall discuss the Company's major financial risk exposures and steps taken by management to monitor and control such exposures.

8. The Committee shall review each report of the independent registered public accounting firm delivered to the Committee pursuant to Section 10A(k) under the Exchange Act, concerning: (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments (including their effect on the Company's financial statements), and the treatment preferred by the independent registered public accounting firm; and (c) other material written communications between the independent registered public accounting firm and management, such as any management letter or schedule of unadjusted differences.

9. The Committee shall review the disclosures made by officers of the Company in the certifications required to be filed (a) as part of the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q regarding any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls and (b) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, regarding the absence of misleading statements in the Company's periodic reports and the fair presentation in such reports of the Company's financial statements and results of operations.

10. The Committee shall discuss with management and the independent registered public accounting firm any correspondence or other communication from or with any governmental agency or regulatory authority that raises any material issue concerning the Company's financial statements, accounting policies, or related matters.

- **Controls**

1. The Committee shall review major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies. The Committee shall assess the adequacy and effectiveness of the system of internal controls, including the security of tangible and intangible corporate assets and the security of computer systems and facilities.

2. The Company shall have an internal audit function. The Committee shall oversee the appointment, removal, and replacement of the Company's internal auditor (or, if such function is performed by more than one person or firm, the person or firm charged with heading such function). The Committee shall review the responsibilities, budget, and staffing of the Company's internal audit function and the scope of the internal audit plan and function.

   At regularly scheduled meetings, and at any other times when they believe it necessary, the independent registered public accounting firm and senior financial management shall meet with the Committee privately and confidentially to notify or advise it concerning any circumstances which they believe require the special attention of the Committee.

Other Committee Activities

1. The Committee may, at its discretion, request management, the independent registered public accounting firm, or other persons with specific competence, including outside counsel and other outside advisors, to undertake special projects or investigations which it deems necessary to fulfill its responsibilities, especially when potential conflicts of interest with management may be apparent.

2. The Committee shall be informed by senior financial management of the rationale for securing audits or second opinions from accounting firms other than the Company's independent registered public accounting firm.

3. The Committee shall annually assess and review the adequacy of this Charter and shall annually review the Committee's own performance.

4. The Committee shall provide its report required to be included in the Company's annual Proxy Statement.

5. The Committee shall establish, or determine that there have been established, procedures for the receipt, retention, and treatment of complaints from Company employees regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters and shall monitor ongoing compliance with these procedures.

6. The Committee shall obtain reports from management, the internal auditor, and the independent registered public accounting firm that the Company is in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics.

7. The Committee shall review such other reports, adopt such other policies, and implement such other procedures as shall be necessary to comply with the rules and regulations that may, from time to time, be established by the NYSE or the SEC.

8. The members of the Committee shall not receive any compensation from the Company other than director fees. Such director fees may be greater than those paid to the other directors of the Company.

9. The Committee shall review with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent registered public accounting firm, or the performance of the internal audit function.

Directors

Joshua Bekenstein
Managing Director
Bain Capital, Inc.

Dr. Michael J. Berendt
Managing Director
Research Corporation Technologies

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

Philip Caldwell
Chairman of the Board and
Chief Executive Officer (Retired)
Ford Motor Company

Edward Conard
Managing Director
Bain Capital, Inc.

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

William J. Miller
Independent Investor and Consultant

Thomas P. Salice
Managing Member
Sceptra Capital Partners, LLC

Executive Officers

Douglas A. Berthiaume
Chairman, President and Chief Executive Officer

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

Brian K. Mazar
Senior Vice President
Human Resources

John Ornell
Vice President
Finance and Administration and Chief Financial Officer

Mark T. Beaudouin
Vice President
General Counsel and Secretary

Transfer Agent

The Bank of New York
101 Barclay Street, - 11 East
New York, NY 10286
1-800-524-4458

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
125 High Street
Boston, Massachusetts 02110

Attorneys

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

Stockholders' Meeting

Date: Tuesday, May 4, 11:00 a.m.
Location: Waters Corporation,
34 Maple Street, Milford, Massachusetts
Directions: Call 800-252-4752,
Ext. 3314 or
www.waters.com/directionsMilford

Stocklist Symbol

NYSE: WAT

Investor Relations

Eugene G. Cassis
Vice President, Investor Relations
508-482-2349
gene_cassis@waters.com

Form 10-K

A copy of the Company's 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request to: Waters Corporation, 34 Maple Street, Milford, Massachusetts 01757

Offices

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

Waters

For Complete Confidence

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