CBS CORP
Form 10-K
February 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from ________________ to ________________

Commission File Number 001-09553

CBS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**04-2949533**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

51 W. 52nd Street
New York, NY 10019
(212) 975-4321

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Stock, $0.001 par value	New York Stock Exchange
Class B Common Stock, $0.001 par value	New York Stock Exchange
7.625% Senior Debentures due 2016	NYSE Amex
6.75% Senior Notes due 2056	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act of 1933). Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes o No ý

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 ý No o

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No ý

As of June 30, 2010, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of CBS Corporation Class A Common Stock, $0.001 par value ("Class A Common Stock"), held by non-affiliates was approximately $134,365,767 (based upon the closing price of $12.98 per share as reported by the New York Stock Exchange on that date) and the aggregate market value of the shares of CBS Corporation Class B Common Stock, $0.001 par value ("Class B Common Stock"), held by non-affiliates was approximately $8,093,836,269 (based upon the closing price of $12.93 per share as reported by the New York Stock Exchange on that date).

As of February 15, 2011, 43,629,213 shares of Class A Common Stock and 628,770,581 shares of Class B Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of CBS Corporation's Notice of 2011 Annual Meeting of Stockholders and Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Proxy Statement") (Portion of Item 5; Part III).

PART I

Item 1. *Business.*

CBS Corporation (together with its consolidated subsidiaries unless the context otherwise requires, the "Company" or "CBS Corp.") is a mass media company with operations in the following segments:

ENTERTAINMENT: The Entertainment segment is composed of the *CBS*® Television Network; CBS Television Studios; CBS Studios International; CBS Television Distribution; CBS Films®; and CBS Interactive.

CABLE NETWORKS: The Cable Networks segment is composed of *Showtime*® Networks, the Company's premium subscription program services; *CBS College Sports Network*®, the Company's cable network devoted to college athletics (to be renamed *CBS Sports Network*™ in April 2011); and Smithsonian Networks , a venture between Showtime Networks and Smithsonian Institution, which operates *Smithsonian Channel* , a basic cable program service.

PUBLISHING: The Publishing segment is composed of *Simon & Schuster,* which publishes and distributes consumer books under imprints such as *Simon & Schuster*®, *Pocket Books*®, *Scribner*® and *Free Press* .

LOCAL BROADCASTING: The Local Broadcasting segment is composed of CBS Television Stations, the Company's 29 owned broadcast television stations; and *CBS Radio*®, through which the Company owns and operates 130 radio stations in 28 United States ("U.S.") markets.

OUTDOOR: The Outdoor segment displays advertising on media, including billboards, transit shelters, buses, rail systems (in-car, station platforms and terminals), mall kiosks, retail stores and stadium signage principally through *CBS Outdoor*®.

For the year ended December 31, 2010, contributions to the Company's consolidated revenues from its segments were as follows: Entertainment 53%, Cable Networks 10%, Publishing 6%, Local Broadcasting 20% and Outdoor 13%. The Company generated approximately 15% of its total revenues from international regions in 2010. For the year ended December 31, 2010, approximately 59% and 18% of total international revenues of approximately $2.08 billion were generated in Europe and Canada, respectively.

As technologies for delivering content and services evolve, the Company continues to pursue and expand upon opportunities to distribute its content to consumers, in the U.S. and internationally, on various platforms, including the Internet, mobile devices and video-on-demand, among others. The Company is focused on utilizing interactive features to deepen and broaden its relationship with audiences.

The Company competes with many different entities and media in various markets worldwide. In addition to competition in each of its businesses, the Company competes for opportunities in the entertainment business with other diversified international entertainment companies such as The Walt Disney Company, NBC Universal, Inc., News Corporation, Time Warner Inc., Cumulus Media Inc. and Clear Channel Outdoor Holdings, Inc.

As of December 31, 2010, National Amusements, Inc. ("NAI"), a closely held corporation that owns and operates approximately 944 movie screens in the U.S., the United Kingdom ("U.K.") and South America and manages 16 movie screens in the U.S. and South America, directly or indirectly owned approximately 79% of the Company's voting Class A Common Stock, and approximately 6% of the Company's Class A Common Stock and Class B Common Stock on a combined basis. Owners of the Company's Class A Common Stock are entitled to one vote per share. The Company's Class B Common Stock does not have voting rights. NAI is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Sumner M. Redstone, the controlling shareholder of NAI, is the Executive Chairman of the Board of Directors and Founder of the Company.

The Company was organized in Delaware in 1986. The Company's principal offices are located at 51 W. 52nd Street, New York, New York 10019. Its telephone number is (212) 975-4321 and its Web site address is www.cbscorporation.com.

CBS CORP. BUSINESS SEGMENTS

Entertainment (53%, 54% and 49% of the Company's consolidated revenues in 2010, 2009 and 2008, respectively)

The Entertainment segment consists of the CBS Television Network; CBS Television Studios, CBS Studios International and CBS Television Distribution, the Company's television production and syndication operations; CBS Films, the Company's producer and distributor of theatrical motion pictures; and CBS Interactive, the Company's online content networks for information and entertainment.

Television Network. The CBS Television Network through CBS Entertainment , CBS News® and CBS Sports® distributes a comprehensive schedule of news and public affairs broadcasts, sports and entertainment programming to more than 200 domestic affiliates reaching throughout the U.S., including 16 of the Company's owned and operated television stations, and to affiliated stations in certain U.S. territories. The CBS Television Network primarily derives revenues from the sales of advertising time for its network broadcasts.

CBS Entertainment is responsible for acquiring or developing and scheduling the entertainment programming presented on the CBS Television Network, which includes primetime comedy and drama series, reality-based programming, specials, children's programs, daytime dramas, game shows and late-night programs. CBS News operates a worldwide news organization, providing the CBS Television Network and the CBS Radio Network with regularly scheduled news and public affairs broadcasts, including *60 Minutes®, CBS Evening News with Katie Couric* and *The Early Show*, as well as special reports. CBS News Productions, the off-network production company created by CBS News, produces programming for domestic and international outlets, including the CBS Television Network, cable television, home video, audio-book and in-flight markets, as well as schools and libraries. CBS News also provides CBS Newspath®, a television news syndication service that offers daily news coverage, sports highlights and news features to the CBS Television Network affiliates and other subscribers worldwide. CBS Sports broadcasts include *The NFL Today*, certain games from the NCAA Division I Men's Basketball Tournament, including the NCAA Men's Final Four, golf, including the Masters Tournament and the PGA Championship, the U.S. Open Tennis Championships, regular-season college football and basketball line-ups on network television, in addition to the NFL's American Football Conference regular season schedule, the Postseason Divisional Playoff games and the AFC championship game. CBS Sports has rights extensions with the NFL to broadcast the AFC through the 2013 season including the broadcast of the 2013 Super Bowl. CBS Home Entertainment licenses home video rights and CBS Consumer Products licenses merchandising rights.

The CW, a broadcast network and the Company's 50/50 joint venture with Warner Bros. Entertainment, was launched in Fall 2006. The CW's programming includes *Gossip Girl*, *90210, The Vampire Diaries* and *America's Next Top Model*. Nine of the Company's owned television stations are affiliates of The CW.

Television Production and Syndication. The Company, through CBS Television Studios, CBS Studios International and CBS Television Distribution, produces, acquires and/or distributes programming worldwide, including series, specials, news and public affairs. Such programming is produced primarily for broadcast on network television, exhibition on basic cable and premium subscription services or distribution via first-run syndication. First-run syndication is programming exhibited on television stations without prior exhibition on a network or cable service. The Company also distributes off-network syndicated programming, which is programming exhibited on television stations or cable networks following its exhibition on a network, basic cable network or premium subscription service.

Programming that was produced or co-produced by the Company's production group and is broadcast on network television includes, among others, *CSI: Crime Scene Investigation* (CBS), *NCIS* (CBS), *The Good Wife* (CBS) and *90210* (The CW). Generally, a network will license a specified number of episodes for broadcast on the network in the U.S. during a license period. Remaining distribution rights, including foreign and/or off-network syndication rights, are typically retained by the Company or, in the case of co-productions, distribution rights are shared with the co-producer for U.S. or foreign markets. The network license fee for a series episode is normally lower than the costs of producing the episode; however, the Company's objective is to recoup its costs and earn a profit through international and domestic syndication of episodes. International sales are generally made within one year of U.S. network run. Generally, a series must have a network run of at least three or four years to be successfully sold in domestic syndication. In off-network syndication, the Company distributes series such as *CSI:, CSI: Miami, CSI: NY, Numb3rs, Criminal Minds* and *NCIS* as well as a library of older television programs. The Company also produces and/or distributes first-run syndicated series such as *Jeopardy!, Entertainment Tonight, Inside Edition, The Insider, Dr. Phil*, *Rachael Ray* and *Judge Judy.* The Company also distributes syndicated programming internationally.

License fees for completed television programming in syndication and on cable are recorded as revenues in the period that the products are available for exhibition, which, among other reasons, may cause substantial fluctuation in the Entertainment segment's operating results. Unrecognized revenues attributable to such license agreements were approximately $654.1 million and $387.0 million at December 31, 2010 and December 31, 2009, respectively.

The Company continues to expand its global channel presence through new international joint ventures. In 2010, the Company entered into a 50-50 joint venture with Reliance Broadcast Network Limited to create three new English language general entertainment television channels customized for the Indian market and surrounding territory, the first of which, *BIG CBS Prime*, launched in November 2010. Also, in 2010, the Company and a subsidiary of Ten Network Holdings Limited entered into a joint venture to provide content to *ELEVEN*, a digital multichannel service which launched in Australia in January 2011. The Company owns an approximately 33% interest in this venture. In addition, the Company owns a 50% interest in a joint venture with Chellozone (UK) Limited, a subsidiary of Liberty Global, Inc., which owns and operates six television channels in the U.K. and Ireland, including *CBS Action*, *CBS Drama* and *CBS Reality*; and an approximately 33% interest in a joint venture, which owns two pay television channels in Australia called *TV1* and *Sci Fi.*

CBS Films. CBS Films was created in September 2007 to produce and distribute theatrical motion pictures across all genres. The budget for each picture is intended to be up to $50 million in addition to advertising and marketing costs at a level consistent with industry custom. The majority of motion pictures produced or acquired by CBS Films is intended for a wide, commercial theatrical release, similar to motion pictures typically produced and released by major studios. CBS Films' U.S. theatrical releases in 2010 included *Extraordinary Measures*, *The Back-up Plan*, and *Faster*, which is a co-production with an affiliate of Sony Pictures Entertainment. U.S. theatrical releases in 2011 include *The Mechanic*, and *Beastly*, which is expected to be released in March 2011.

In general, motion pictures produced or acquired by CBS Films are exhibited theatrically in the U.S. and internationally, followed by exploitation via home entertainment (including DVD and electronic sell-through), video-on-demand, pay-per-view, pay television, free television and basic cable, digital media outlets and, in some cases, other exhibitors such as airlines and hotels. CBS Films will exploit its motion pictures (including certain ancillary rights, such as licensing and merchandising) and generate revenues in all media in the relevant release windows worldwide either directly, through affiliated CBS entities, or via third party distribution arrangements.

CBS Interactive. CBS Interactive operates one of the leading online content networks for information and entertainment. CBS Interactive was ranked among the top Internet properties in the world according to comScore Media Metrix, December 2010. CBS Interactive's leading brands, including *CNET*, *CBS.com*, *CBSSports.com*, *GameSpot*, *TV.com, BNET* and *CHOW*, among others, serve targeted audiences with text, video, audio, and mobile content spanning technology, entertainment, sports, news, business, gaming and music categories. In addition to its U.S.-based business, CBS Interactive operates in Asia and Europe. CBS Interactive's worldwide brands reached approximately 256.0 million unique monthly visitors during December 2010.

CBS Interactive generates revenue principally from the sale of advertising and sponsorships, in addition to fees derived from search and commerce partners, licensing fees, subscriptions, e-commerce activities, and other paid services. Advertising spending on the Internet, as in traditional media, fluctuates significantly with economic conditions. In addition, online marketing spending follows seasonal consumer behavior throughout the calendar year to reflect trends during the calendar year.

CNET.com is one of the leading Web sites for technology and consumer electronics information. *GameSpot* is one of the leading gaming information Web sites according to comScore Media Metrix, December 2010. *GameSpot's* content includes video game reviews and previews, news, Webcasts, videos, online tournaments and game downloads. *CBSSports.com* provides sports content, fantasy sports, community and e-commerce features. *CBSSports.com* owns and operates *CBSCollegeSports.com College Network* and *MaxPreps.com*. In 2010, CBSSports.com hosted the NCAA March Madness on demand video player that provided live streaming video of the NCAA Division I Men's Basketball Championship. *TV.com* is a leading destination for entertainment and community around television where visitors can watch videos and discuss and obtain information about television shows across all networks. CBS Business Network, which is composed of *BNET.com* and *CBS MoneyWatch.com,* is a leading business media site, offering award-winning original content, as well as one of the largest business libraries available on the Internet. CBS Interactive also operates *CBS.com*, the online destination for CBS Television Network programming. Through the CBS *Audience Network ,* the Company delivers content from its Web sites and television, radio and affiliated stations, through new and existing advertiser-supported deals. The growing slate of CBS entertainment, news and sports content available includes full episodes, clips and highlights based on CBS and Showtime Networks programming as well as original made-for-the-Web content.

Entertainment Competition.

Television Network. The television broadcast environment is highly competitive. The principal methods of competition in broadcast television are the development and acquisition of popular programming and the development of audience interest through programming and promotion, in order to sell advertising at profitable rates. Broadcast networks like CBS compete for audience, advertising revenues and programming with other broadcast networks such as ABC, FOX, NBC, The CW and MyNetworkTV, independent television stations, cable program services as well as other media, including DVDs, print and the Internet. In addition, the CBS Television Network competes with the other broadcast networks to secure affiliations with independently owned television stations in markets across the country, which are necessary to ensure the effective distribution of network programming to a nationwide audience. According to Nielsen Media Research, for the broadcast television primetime daypart for the period September 20, 2010 to February 6, 2011, the CBS Television Network secured the #1 position for total viewers and for key adult viewers ages 25-54 and the #2 position for adult viewers ages 18-49.

Television Production and Syndication. As a producer and distributor of programming, the Company competes with studios, television production groups, and independent producers and syndicators such as Disney, Sony, NBC Universal, Warner Bros. and Fox to produce and sell programming both domestically and overseas. The Company also competes to obtain creative talent and story properties which are essential to the success of all of the Company's entertainment businesses.

CBS Films. Motion picture production and distribution is a highly competitive business. During the life cycle of the development and production of a motion picture project, CBS Films must compete for the rights to compelling underlying source material and talent such as writers, producers, directors, on screen performers and other creative personnel. Once a motion picture is completed, CBS Films must compete with numerous other motion pictures produced by various studios and independent producers including Paramount Pictures Corporation, Walt Disney Studios Motion Pictures, Warner Bros. Entertainment, Inc., Lionsgate Entertainment, Summit Entertainment, LLC, The Weinstein Company, Metro-Goldwyn-Mayer Studios Inc. and Lakeshore Entertainment Group LLC, among others, for audience acceptance as well as limited exhibition outlets across all of the relevant release windows. In addition, the ultimate consumer has many options for entertainment other than motion pictures including video games, sports, travel, outdoor recreation, the Internet, and other cultural and computer-related activities.

CBS Interactive. CBS Interactive competes with a variety of online properties for users, advertisers, and partners, including the following: general purpose portals such as AOL, MSN and Yahoo!, especially as these properties expand their content offerings; search engines such as Google, Yahoo! and MSN; online comparison shopping and retail properties, including Shopping.com, Amazon.com and eBay; vertical content sites in the categories that CBS Interactive's brands serve, such as technology, gaming, music, news, business, food, and lifestyle focused Web sites; and platforms such as blogs, podcasts and video properties. CBS Interactive also competes for users and advertisers with diversified media companies that provide both online and offline content, including magazines, cable television, network television, radio and newspapers.

Cable Networks (10%, 10% and 9% of the Company's consolidated revenues in 2010, 2009 and 2008, respectively)

The Cable Networks segment is composed of *Showtime Networks*, the Company's premium subscription program services; *CBS College Sports Network*, the Company's cable network devoted to college athletics; and *Smithsonian Networks*, a venture with Smithsonian Institution, which operates *Smithsonian Channel*.

Showtime Networks. Showtime Networks owns and operates three commercial-free, premium subscription program services in the U.S.: *Showtime,* offering recently released theatrical feature films, original series, documentaries, boxing, mixed martial arts and other sports-related programming, and special events; *The Movie Channel*®, offering recently released theatrical feature films and related programming; and *Flix*®, offering theatrical feature films primarily from the last several decades, as well as selected other titles. At December 31, 2010, *Showtime, The Movie Channel* and *Flix*, in the aggregate, had approximately 67.1 million subscriptions in the U.S., certain U.S. territories and Bermuda.

Showtime Networks also owns and operates multiplexed channels of *Showtime* and *The Movie Channel* in the U.S. which offer additional and varied programming choices. In addition, Showtime Networks transmits high definition feeds of *Showtime, The Movie Channel* and many of their multiplexed channels, and also makes versions of *Showtime, The Movie Channel* and *Flix* available "on demand," enabling subscribers to watch selected individual programs at their convenience (in both standard and high definition in the case of *Showtime* and *The Movie Channel*, and standard definition in the case of *Flix*). In October 2010, Showtime Networks announced its plans to launch *Showtime Anytime* , a new video-streaming version of *Showtime* to be available via the Internet free of charge to *Showtime* subscribers as part of their *Showtime* subscription through participating Showtime Networks' cable, direct broadcast satellite ("DBS") and telephone company ("telco") distributors. Showtime Networks also operates the Web site *SHO.com* and various mobile applications which promote *Showtime, The Movie Channel* and *Flix* programming, and provide information and entertainment and other services.

Showtime Networks derives revenue principally from the license of its program services to numerous cable, DBS, telco, and other distributors, with a substantial portion of such revenue coming from three of the largest such distributors. The costs of acquiring exhibition rights to programming and producing original series are the principal expenses of Showtime Networks. Showtime Networks enters into commitments to acquire rights, with an emphasis on acquiring exclusive rights for *Showtime* and *The Movie*

Channel, from major or independent motion picture producers and other distributors typically covering the U.S. and Bermuda for varying durations. For example, in addition to a motion picture output agreement with CBS Films, Showtime Networks has entered into motion picture output agreements with Buena Vista Pay Television, a subsidiary of The Walt Disney Company, for certain DreamWorks motion pictures, The Weinstein Company and Summit Entertainment for the exclusive U.S. premium subscription television rights for certain exhibition windows relating to feature films initially theatrically released in the U.S through December 2015 and, in the case of Summit Entertainment, December 2012. Showtime Networks' original series include *Dexter®*, *Californication*, *Nurse Jackie, Shameless, The Big C, The Borgias* (premiering in April 2011), *Weeds* and *United States of Tara®,* among others. Showtime Networks has entered into and may from time to time enter into co-financing, co-production and/or distribution arrangements with other parties to reduce the net cost to Showtime Networks for its original programming. In addition, Showtime Networks derives revenue by licensing rights it retains in certain of its original programming. For example, Showtime Networks and its corporate affiliate(s) have entered into licenses with television networks in various territories for exhibition of certain original series, as well as electronic sell-through arrangements with several Internet distributors, including iTunes and Amazon, among others, for certain *Showtime* programming. Showtime Networks also produces and/or provides special events to licensees on a pay-per-view basis through *Showtime PPV®.*

Showtime Networks also owns a majority of and manages Smithsonian Networks, a venture with Smithsonian Institution, which operates *Smithsonian Channel* , a basic cable service in the U.S., featuring programs of a cultural, historical, scientific and educational nature. Smithsonian Networks has launched both standard and high definition versions of *Smithsonian Channel*, as well as of its companion on demand version.

CBS College Sports Network. CBS College Sports Network is a 24-hour cable program service dedicated to college sports. The network features events from approximately 15 men's and women's college sports and provides coverage of over 250 live events each year in addition to live studio shows and original programming. CBS College Sports Network had approximately 39.1 million subscribers as of December 31, 2010. The network derives its revenues from subscription fees and the sale of advertising time on its cable program service. CBS College Sports Network and Comcast Corporation each owns a 50% interest in *the mtn: MountainWest Sports Network*, which exhibits Mountain West Conference athletics and is available to U.S. cable and satellite providers.

Cable Networks Competition.

Showtime Networks. Showtime Networks primarily competes with other providers of premium subscription program services in the U.S.: Home Box Office, Inc. and Starz Entertainment, LLC. Competition among premium subscription program services in the U.S. is dependent on: (i) the production, acquisition and packaging of original series and other original programming and the acquisition and packaging of an adequate number of recently released theatrical motion pictures; and (ii) the offering of prices, marketing and advertising support and other incentives to cable, DBS, telco and other distributors for carriage so as to favorably position and package Showtime Networks' premium subscription program services to subscribers. Home Box Office, Inc. is the dominant company in the U.S. premium subscription program service category, offering two premium subscription program services, HBO and Cinemax. Showtime Networks competes with Home Box Office, Inc. and has a smaller share of the premium subscription program service category. Starz Entertainment, LLC owns Starz, another premium subscription program service, which competes with Showtime Networks' and Home Box Office, Inc.'s premium program services. Showtime Networks also competes for programming, distribution and/or audiences with broadcast television, basic cable program services and other media, including DVDs, portable devices and the Internet.

The terms and favorable renewal of agreements with distributors for the distribution of the Company's subscription program services are important to the Company. Consolidation among multichannel video programming distributors and other marketplace factors make it more difficult to reach favorable terms and could have an adverse effect on revenues. In addition, new entrants, such as Netflix, Inc., providing programming or other services for cable and/or other platforms, including the Internet, are or could be competitive with and adversely affect the Company's media businesses, including Showtime Networks' subscription program service business.

Smithsonian Networks competes for programming, distribution and/or audiences with non-fiction and other basic cable program services, including Discovery Channel, National Geographic Channel and History, as well as with broadcast television and other media, such as DVDs, portable devices and the Internet.

CBS College Sports Network. CBS College Sports Network's cable programming service principally competes with other sports-oriented cable programming services for cable, DBS and telco distribution and related revenue, for viewership and for advertising revenue. Consolidation among cable operators has made it more difficult for newer channels to secure broad distribution. In addition, the largest cable providers have created sports tiers for newer sports programming services which have not, in many cases, achieved significant subscriber penetration or acceptance. CBS College Sports Network's television service also competes with other sports programming services, such as ESPN and the FOX Sports Networks, in acquiring the television and multimedia rights to sporting events, resulting in increased rights fees and increased production expenses. *CBS College Sports Network* will be renamed *CBS Sports Network* in April 2011.

Publishing (6% of the Company's consolidated revenues in each of 2010, 2009 and 2008)

The Publishing segment consists of Simon & Schuster, which publishes and distributes consumer books in the U.S. and internationally.

Simon & Schuster publishes and distributes adult and children's consumer books in printed, audio and digital formats in the U.S. and internationally. Digital formats include audio downloads for the Apple iPod and MP3 players, electronic books for increasingly popular devices such as Amazon's Kindle, the Apple iPad and Barnes & Noble's NOOK, stand-alone applications for the Apple iPod and iPhone, and new hybrid text and video combinations. Simon & Schuster's major adult imprints include *Simon & Schuster*, *Pocket Books, Scribner*, *Atria Books®, Gallery Books*, *Touchstone®* and *Free Press*. Simon & Schuster's major children's imprints include *Simon Pulse®, Aladdin®* and *Simon & Schuster Books For Young Readers*. Simon & Schuster also develops special imprints and publishes titles based on the CBS Television Network's and Showtime Networks' products as well as that of third parties and distributes products for other publishers. Simon & Schuster distributes its products directly and through third parties. Simon & Schuster also delivers content and promotes its products on general Internet sites as well as those linked to individual titles; its created assets include online videos showcasing Simon & Schuster authors and new releases on YouTube, Facebook, MSN.com, SimonandSchuster.com and other sites. International publishing includes the international distribution of English-language titles through Simon & Schuster UK, Simon & Schuster Canada and Simon & Schuster Australia and other distributors, as well as the publication of local titles by Simon & Schuster UK and Simon & Schuster Australia.

In 2010, Simon & Schuster published 154 titles that were New York Times bestsellers, including 14 New York Times #1 bestsellers. Best-selling titles in 2010 include BROKE by Glenn Beck, WOMEN FOOD AND GOD by Geneen Roth, SPOKEN FROM THE HEART by Laura Bush and FULL DARK, NO STARS by Stephen King. Bestselling children's titles from Simon & Schuster include CLOCKWORK ANGEL by Cassandra Clare, DORK DIARIES 2 by Rachel Renee Russell and CRESCENDO by Becca Fitzpatrick. *Simon & Schuster Digital*, through *SimonandSchuster.com*, publishes original content, builds reader communities and promotes and sells Simon & Schuster's books over the Internet.

The consumer publishing marketplace is subject to increased periods of demand in the summer months and during the end-of-year holiday season. Major new title releases represent a significant portion of Simon & Schuster's sales throughout the year. Simon & Schuster's top 10 accounts drive a significant portion of its annual revenue. Consumer print books are generally sold on a fully returnable basis, resulting in the return of unsold books. In the domestic and international markets, the Company is subject to global trends and local economic conditions. In 2010, the sale of digital content represented 8.0% of Simon & Schuster's revenues. The Company expects that electronic books will represent an increasing portion of Simon & Schuster revenues in the coming years.

Publishing Competition. The consumer publishing business is highly competitive and has been affected over the years by consolidation trends. Mass merchandisers and on-line retailers are significant factors in the industry contributing to the general trend toward consolidation in the retail channel. The growth of the electronic book market has impacted print book retailers and wholesalers and could result in a reduction of these channels for the sales and marketing of the Company's books. In addition, unfavorable economic conditions and competition may adversely affect book retailers' operations, including distribution of the Company's books. The Company must compete with other larger publishers such as Random House, Penguin Group and Harper Collins for the rights to works by authors. Competition is particularly strong for well-known authors and public personalities. In addition, technological changes have made it increasingly possible for authors to self-publish and have led to the development of new digital distribution models in which the Company's books must compete with the availability of both a larger volume of books as well as non-book content. In recent years, the Company has had to contend with price pressure on new releases, for both printed and electronic formats, as a result of price competition among book retailers. In 2010, Simon & Schuster began to enter into agency arrangements with book retailers and wholesalers in the U.S. and the U.K. under which Simon & Schuster sells its electronic books directly to the consumer and sets the consumer price. The Company still faces price competition from retailers and from competing publishers that sell directly to consumers.

Local Broadcasting (20%, 18% and 21% of the Company's consolidated revenues in each of 2010, 2009 and 2008, respectively)

The Local Broadcasting segment is composed of CBS Television Stations, the Company's 29 owned broadcast television stations, and CBS Radio, through which the Company owns and operates 130 radio stations in 28 U.S. markets and related online properties. In 2010, the Company launched new local Web sites in New York, Los Angeles, San Francisco and Philadelphia, among others, which combine television and radio local media brands online to provide the latest news, traffic, weather, and sports information as well as local discounts, directories and reviews to serve the local community.

CBS Television Stations. The Company owns 29 broadcast television stations through its CBS Television Stations group, all of which operate under licenses granted by the Federal Communications Commission ("FCC") pursuant to the Communications Act of 1934, as amended (the "Communications Act"). The licenses are renewable every eight years. The Company's television stations are located in the 8 largest, and 15 of the top 20, television markets in the U.S. The Company owns multiple television stations within the same designated market area ("DMA") in 9 major markets. These multiple station markets are: Los Angeles (market #2), Philadelphia (market #4), Dallas-Fort Worth (market #5), San Francisco-Oakland-San Jose (market #6), Boston (market #7), Detroit (market #11), Miami-Ft. Lauderdale (market #16), Sacramento-Stockton-Modesto (market #20), and Pittsburgh (market #24). This group of television stations enables the Company to reach a wide audience within and across geographically diverse markets in the U.S. The stations produce news and broadcast public affairs, sports and other programming to serve their local markets and offer CBS, The CW or MyNetworkTV programming and syndicated programming. The CBS Television Stations group principally derives its revenues from the sale of advertising time on its television stations. Substantially all of the Company's television stations operate Web sites, many of which are combined with the Web sites of the Company's radio stations in co-located markets, which promote the stations' programming, and provide news, information and entertainment, as well as other services. These Web sites principally derive revenues from the sale of advertising.

Television Stations

The table below sets forth the broadcast television stations owned by the Company as of February 21, 2011.

Station and Metropolitan Area Served(1)	Market Rank(2)	Type	Network Affiliation
WCBS-TV New York, NY	1	UHF	CBS
KCAL-TV Los Angeles, CA	2	VHF	Independent
KCBS-TV Los Angeles, CA	2	UHF	CBS
WBBM-TV Chicago, IL	3	VHF	CBS
KYW-TV Philadelphia, PA	4	UHF	CBS
WPSG-TV Philadelphia, PA	4	UHF	The CW
KTVT-TV Dallas-Fort Worth, TX	5	UHF	CBS
KTXA-TV Dallas-Fort Worth, TX	5	UHF	Independent
KPIX-TV San Francisco-Oakland-San Jose, CA	6	UHF	CBS
KBCW-TV San Francisco-Oakland-San Jose, CA	6	UHF	The CW
WBZ-TV Boston, MA	7	UHF	CBS
WSBK-TV Boston, MA	7	UHF	Independent
WUPA-TV Atlanta, GA	8	UHF	The CW
WKBD-TV Detroit, MI	11	UHF	The CW
WWJ-TV Detroit, MI	11	UHF	CBS
KSTW-TV Seattle-Tacoma, WA	13	VHF	The CW
WTOG-TV Tampa-St. Petersburg-Sarasota, FL	14	UHF	The CW

Station and Metropolitan Area Served(1)	Market Rank(2)	Type	Network Affiliation
WCCO-TV Minneapolis-St. Paul, MN	15	UHF	CBS
Satellites:			
KCCO-TV(3) Alexandria, MN		VHF	CBS
KCCW-TV(4) Walker, MN		VHF	CBS
WFOR-TV Miami-Ft. Lauderdale, FL	16	UHF	CBS
WBFS-TV Miami-Ft. Lauderdale, FL	16	UHF	MyNetworkTV
KCNC-TV Denver, CO	17	UHF	CBS
KOVR-TV Sacramento-Stockton-Modesto, CA	20	UHF	CBS
KMAX-TV Sacramento-Stockton-Modesto, CA	20	UHF	The CW
KDKA-TV Pittsburgh, PA	24	UHF	CBS
WPCW-TV Pittsburgh, PA	24	VHF	The CW
WJZ-TV Baltimore, MD	26	VHF	CBS
WBXI-CA(5) Indianapolis, IN	27	UHF	Tr3s

(1) Metropolitan Area Served is Nielsen Media Research's DMA.

(2) Market Rankings based on Nielsen Media Research Local Market Universe Estimate, September 2010.

(3) KCCO-TV is operated as a satellite station of WCCO-TV.

(4) KCCW-TV is operated as a satellite station of WCCO-TV.

(5) WBXI-CA is a Class A low power television station. Class A low power television stations do not implicate the FCC's ownership rules.

CBS Radio. The Company's radio broadcasting business operates through CBS Radio, one of the largest operators of radio stations in the U.S. CBS Radio owns and operates 130 radio stations serving 28 U.S. markets as of February 21, 2011. Virtually all of the Company's owned and operated radio stations are located in the 50 largest U.S. radio markets and approximately 75% in the 25 largest U.S. radio markets. The Company's strategy generally is to operate radio stations in the largest markets and take advantage of the Company's ability to sell advertising across multiple markets and formats. The Company believes that it is favorably impacted by offering radio, television and outdoor advertising platforms in large markets. The "Radio Stations, Television Stations and Outdoor Advertising Displays" table below includes information with respect to the Company's radio stations in the top 25 U.S. radio markets.

CBS Radio's geographically dispersed stations serve diverse target demographics through a broad range of formats such as rock, classic hits/oldies, all-news, talk, Spanish language, adult contemporary, top 40/contemporary hit radio, urban, sports and country, and CBS Radio has established leading franchises in news, sports and personality programming. This diversity provides advertisers with the convenience of selecting stations to reach a targeted demographic or of selecting groups of stations to reach broad groups of consumers within and across markets and also reduces the Company's dependence on any single station, local economy, format or advertiser. At the same time, CBS Radio maintains substantial diversity in each market where its stations operate so that its stations can appeal to several demographic groups. CBS Radio's general programming strategies include employing popular on-air talent, some of whose broadcasts may be syndicated by CBS Radio using the services of a third party syndicator, broadcasting programming syndicated to it by others, acquiring the rights to broadcast sports play-by-play and producing and acquiring news content for its radio stations. The overall mix of each radio station's programming lineup is designed to fit the station's specific format and serve its local community. The Company also has agreements with Westwood One, Inc. involving compensation to the Company, the provision of radio programming to CBS Radio and the distribution by Westwood One of CBS Radio News programming.

The majority of CBS Radio's revenues are generated from the sale of local and national advertising. The major categories of radio advertisers include: automotive, retail, healthcare, telecommunications, fast food, beverage, movies and entertainment. CBS Radio is able to use the reach, diversity and branding of its radio stations to create unique division-wide marketing and promotional initiatives for major national advertisers of products and services. The success and reputation of CBS Radio and its stations allow the Company to attract the participation of major artists in these national campaigns. Advertising expenditures by local advertisers fluctuate, which has an effect on CBS Radio's revenues.

Substantially all of the Company's radio stations operate Web sites, many of which are combined with the Web sites of the Company's television stations in co-located markets, which promote the stations' programming, and provide news, information and entertainment, as well as other services. Also, CBS Radio operates music radio station Web sites and Radio.com, which streams the broadcast of CBS Radio stations and powers custom channels for AOL Radio and Yahoo! Launchcast Radio. CBS Radio also operates Last.fm, a music discovery and social networking site, mp3.com, and TheStreetDate.com. These Web sites principally derive revenues from the sale of advertising. CBS Radio is one of the most listened to online radio providers according to Ando Media's monthly Top 20 Ranker for December 2010.

Local Broadcasting Competition.

CBS Television Stations. Television stations compete for programming, on-air talent, audiences and advertising revenues with other stations and cable networks in their respective coverage areas and, in some cases, with respect to programming, with other station groups, and, in the case of advertising revenues, with other local and national media. The owned and operated television stations' competitive position is largely influenced by the quality of the syndicated programs and local news programs in time periods not programmed by the network; the strength of the CBS Television Network programming and, in particular, the viewership of the CBS Television Network in the time period immediately prior to the late evening news; and in some cases, by the quality of the broadcast signal.

CBS Radio. The Company's radio stations directly compete within their respective markets for audience, advertising revenues and programming with other radio stations, including those owned by other group owners such as Clear Channel Communications, Citadel Broadcasting, Cumulus Media Inc., Emmis Communications, Entercom Communications Corporation and Radio One. The Company's radio stations, including its Internet and streaming activities, also compete with other media, such as broadcast, cable and DBS television, other radio stations, newspapers, magazines, direct mail, the Internet, including Internet radio services such as Pandora, Live 365 and Rhapsody. The radio industry is also subject to competition from Sirius XM Radio Inc., which provides digital audio services to subscribers.

The Company's television and radio stations face increasing competition from newer technologies, including audio and visual programming delivered via the Internet, which create new ways for individuals to watch programming and listen to music and other content of their choosing while avoiding traditional commercial advertisements. Also, an increasingly broad adoption by consumers of portable digital devices could affect the ability of the Company's television and radio stations to attract audiences and advertisers.

Most of the Company's owned radio stations implement digital broadcasting. The Company believes that digital transmissions will provide listeners with improved sound quality and new programming channels and should facilitate the convergence of radio with other digital media. It is too early to predict the full effect that the implementation of digital broadcasts will have on the Company's radio businesses or on competition generally.

Aggregate total revenues for the Company's radio stations for 2010 were ranked #1 in four of the top five U.S. markets by metro area population (New York, Chicago, San Francisco, and Dallas-Fort Worth), according to the 2010 Market Total Revenues Performance Summary of Miller, Kaplan, Arase & Co., LLP.

Radio Stations, Television Stations and Outdoor Advertising Displays

The following table sets forth information with regard to the Company's radio stations, television stations and outdoor advertising displays as of February 21, 2011 in the top 25 U.S. radio markets:

	Radio			Television			Outdoor
Market and Market Rank(1)	**Stations**	**AM/ FM**	**Format**	**Stations**	**Type**	**Network Affiliation**	**Display Type**
New York, NY	WCBS	FM	Classic Hits	WCBS-TV	UHF	CBS	Billboards,
	WCBS	AM	News				Subway/Rail, Bus,
#1 Radio	WFAN	AM	Sports				Street Furniture,
#1 Television	WINS	AM	News				Malls, Digital
	WWFS	FM	Adult Contemporary				In-Store Networks
	WXRK	FM	Contemporary Hit Radio				
Los Angeles, CA	KCBS	FM	Adult Hits	KCAL-TV	VHF	Independent	Billboards,
	KFWB(2)	AM	News/Talk	KCBS-TV	UHF	CBS	Subway/Rail, Bus,

)	1,760	(383)		
Retirement liability adjustment, net of tax	165	119	(2,589)	712
Other comprehensive income (loss)	24,097	(33,278)	6,563	11,012
Comprehensive income	$ 123,206	$ 67,979	$ 292,062	$ 306,833

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

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WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(unaudited)

	Nine Months Ended	
	September 29, 2012	October 1, 2011
Cash flows from operating activities:		
Net income	$ 285,499	$ 295,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for doubtful accounts on accounts receivable	1,838	2,267
Provisions on inventory	8,334	7,477
Stock-based compensation	21,687	20,645
Deferred income taxes	(9,382)	(7,072)
Depreciation	27,101	27,267
Amortization of intangibles	24,124	22,778
Change in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	5,506	10,040
Increase in inventories	(36,558)	(46,235)
(Increase) decrease in other current assets	(2,959)	4,532
Increase in other assets	(811)	(4,023)
Decrease in accounts payable and other current liabilities	(18,971)	(11,937)
Increase in deferred revenue and customer advances	16,217	20,970
(Decrease) increase in other liabilities	(3,998)	4,782
Net cash provided by operating activities	317,627	347,312
Cash flows from investing activities:		
Additions to property, plant, equipment and software capitalization	(73,048)	(51,344)
Business acquisitions, net of cash acquired	(31,016)	(11,000)
Purchase of short-term investments	(1,384,717)	(1,297,497)
Maturity of short-term investments	1,189,930	1,165,127
Net cash used in investing activities	(298,851)	(194,714)
Cash flows from financing activities:		
Proceeds from debt issuances	188,074	558,199
Payments on debt	(31,935)	(352,676)
Payments of debt issuance costs	(497)	(4,523)
Proceeds from stock plans	21,284	45,687
Purchase of treasury shares	(235,282)	(297,985)
Excess tax benefit related to stock option plans	4,061	15,316
Proceeds from (payments for) debt swaps and other derivative contracts	899	(1,971)
Net cash used in financing activities	(53,396)	(37,953)
Effect of exchange rate changes on cash and cash equivalents	6,923	783
(Decrease) increase in cash and cash equivalents	(27,697)	115,428
Cash and cash equivalents at beginning of period	383,990	308,498
Cash and cash equivalents at end of period	$ 356,293	$ 423,926

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

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WATERS CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Presentation and Summary of Significant Accounting Policies

Waters Corporation (Waters® or the Company) is an analytical instrument manufacturer that primarily designs, manufactures, sells and services, through its Waters Division, high performance liquid chromatography (HPLC), ultra performance liquid chromatography (UPLC® and together with HPLC, referred to as LC) and mass spectrometry (MS) technology systems and support products, including chromatography columns, other consumable products and comprehensive post-warranty service plans. These systems are complementary products that are frequently employed together (LC-MS) and sold as integrated instrument systems using a common software platform and are used along with other analytical instruments. LC is a standard technique and is utilized in a broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials, and to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as proteomics), food safety analysis and environmental testing. LC-MS instruments combine a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. Through its TA Division (TA®), the Company primarily designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments, which are used in predicting the suitability of fine chemicals, polymers and viscous liquids for various industrial, consumer goods and healthcare products, as well as for life science research. The Company is also a developer and supplier of software-based products that interface with the Company s instruments and are typically purchased by customers as part of the instrument system.

The Company s interim fiscal quarter typically ends on the thirteenth Saturday of each quarter. Since the Company s fiscal year end is December 31, the first and fourth fiscal quarters may not consist of thirteen complete weeks. The Company s third fiscal quarters for 2012 and 2011 ended on September 29, 2012 and October 1, 2011, respectively.

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

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

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

Cash, Cash Equivalents and Short-Term Investments

The Company s cash equivalents primarily represent highly liquid investments, with original maturities of 90 days or less, primarily in bank deposits, U.S. and U.K. treasury bill money market funds and commercial paper. Investments with longer maturities are classified as short-term investments, and are held primarily in U.S. treasury bills, Canadian government U.S. dollar-denominated treasury bills and commercial paper, bank deposits and investment-grade commercial paper. The Company maintains balances in various operating accounts in excess of federally insured limits, and in foreign subsidiary accounts in currencies other than U.S. dollars. As of September 29, 2012 and December 31, 2011, $1,423 million out of $1,448 million and $1,200 million out of $1,281 million, respectively, of the Company s total cash, cash equivalents and short-term investments were held by foreign subsidiaries and may be subject to material tax repatriation effects.

Fair Value Measurements

In accordance with the accounting standards for fair value measurements and disclosures, certain of the Company s assets and liabilities are measured at fair value on a recurring basis as of September 29, 2012 and December 31, 2011. Fair values determined by Level 1 inputs utilize observable data, such as quoted prices in active markets. Fair values determined by Level 2 inputs utilize data points other than quoted prices in active markets that are observable either directly or indirectly. Fair values determined by Level 3 inputs utilize unobservable data points for which there is little or no market data, which require the reporting entity to develop its own assumptions.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table represents the Company s assets and liabilities measured at fair value on a recurring basis at September 29, 2012 (in thousands):

	Total at September 29, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 108,987	$	$ 108,987	$
Short-term investments	1,092,148		1,092,148	
Waters 401(k) Restoration Plan assets	24,243		24,243	
Foreign currency exchange contract agreements	146		146	
Total	$ 1,225,524	$	$ 1,225,524	$
Liabilities:				
Foreign currency exchange contract agreements	$ 531	$	$ 531	$
Total	$ 531	$	$ 531	$

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

	Total at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 142,966	$	$ 142,966	$
Short-term investments	897,361		897,361	
Waters 401(k) Restoration Plan assets	20,667		20,667	
Foreign currency exchange contract agreements	81		81	
Total	$ 1,061,075	$	$ 1,061,075	$
Liabilities:				
Foreign currency exchange contract agreements	$ 1,317	$	$ 1,317	$
Total	$ 1,317	$	$ 1,317	$

The Company s financial assets and liabilities have been classified as Level 2. These assets and liabilities have been initially valued at the transaction price and subsequently valued, typically utilizing third-party pricing services. The pricing services use many inputs to determine value, including reportable trades, benchmark yields, credit spreads, broker/dealer quotes, current spot rates and other industry and economic events. The Company validates the prices provided by third-party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. The fair values of the Company s cash equivalents, short-term investments, 401(k) restoration plan

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets and foreign currency exchange contracts are determined through market and observable sources and have been classified as Level 2. After completing these validation procedures, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of September 29, 2012 and December 31, 2011.

Fair Value of Other Financial Instruments

The Company s cash, accounts receivable, accounts payable and variable interest rate debt are recorded at cost, which approximates fair value. The carrying value and fair value of the Company s fixed interest rate debt was $400 million and $416 million, respectively, at September 29, 2012. The carrying value and fair value of the Company s fixed interest rate debt was $400 million and $410 million, respectively, at December 31, 2011.

Hedge Transactions

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

The Company records its hedge transactions in accordance with the accounting standards for derivative instruments and hedging activities, which establish the accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated balance sheets at fair value as either assets or liabilities. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings; ineffective portions of changes in fair value are recognized in earnings. In addition, disclosures required for derivative instruments and hedging activities include the Company s objectives for using derivative instruments, the level of derivative activity the Company engages in, as well as how derivative instruments and related hedged items affect the Company s financial position and performance.

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

The Company enters into forward foreign exchange contracts, principally to hedge the impact of currency fluctuations on certain inter-company balances and short-term assets and liabilities. Principal hedged currencies include the Euro, Japanese Yen, British Pound and Singapore Dollar. The periods of these forward contracts typically range from one to three months and have varying notional amounts, which are intended to be consistent with changes in the underlying exposures. Gains and losses on these forward contracts are recorded in selling and administrative expenses in the consolidated statements of operations. At September 29, 2012 and December 31, 2011, the Company held forward foreign exchange contracts with notional amounts totaling $133 million and $161 million, respectively.

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

	September 29, 2012	December 31, 2011
Other current assets	$ 146	$ 81
Other current liabilities	$ 531	$ 1,317

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Realized gains (losses) on closed contracts	$ 424	$ (3,941)	$ 899	$ (1,971)
Unrealized gains on open contracts	593	160	851	312
Cumulative net pre-tax gains (losses)	$ 1,017	$ (3,781)	$ 1,750	$ (1,659)

Stockholders Equity

In May 2012, the Company s Board of Directors authorized the Company to repurchase up to $750 million of its outstanding common stock over a two-year period. During the nine months ended September 29, 2012 and October 1, 2011, the Company repurchased 2.8 million and 3.6 million shares of the Company s outstanding common stock at a cost of $229 million and $292 million, respectively, under existing share repurchase programs. As of September 29, 2012, the Company repurchased an aggregate of 6.0 million shares of its common stock for an aggregate cost of $497 million under the February 2011 repurchase program, which is now expired. The Company has a total of $704 million authorized for future purchases under the May 2012 share repurchase program. In addition, the Company repurchased $6 million of common stock during both the nine months ended September 29, 2012 and October 1, 2011 related to the vesting of restricted stock units.

Product Warranty Costs

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

The following is a summary of the activity of the Company s accrued warranty liability for the nine months ended September 29, 2012 and October 1, 2011 (in thousands):

	Balance at Beginning of Period	Accruals for Warranties	Settlements Made	Balance at End of Period
Accrued warranty liability:				
September 29, 2012	$ 13,258	$ 5,780	$ (6,153)	$ 12,885
October 1, 2011	$ 11,272	$ 7,061	$ (5,837)	$ 12,496

Subsequent Events

The Company did not have any material subsequent events.

2 Inventories

Inventories are classified as follows (in thousands):

	September 29, 2012	December 31, 2011
Raw materials	$ 75,288	$ 71,993
Work in progress	19,118	12,293
Finished goods	152,588	128,578
Total inventories	$ 246,994	$ 212,864

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Acquisitions

The Company accounts for business acquisitions under the accounting standard for business combinations and the results of each acquisition have been included in the Company s consolidated results from the respective acquisition dates.

In July 2012, the Company acquired all of the outstanding capital stock of Blue Reference, Inc. (Blue Reference), a U.S.-based developer and distributor of software products used for the real-time mining and analysis of multiple-application scientific databases, for $14 million in cash. The Company will integrate the Blue Reference technology into the current and future software product platforms to further differentiate its offerings by providing customers with a more efficient scientific information assessment process, where there is an ongoing need for immediacy and interactivity of multiple scientific databases. 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 $8 million of the purchase price to intangible assets comprised of technology and $1 million to customer relationships and other intangibles. The Company is amortizing acquired technology over seven years and the customer relationships and other intangibles over five years. The remaining purchase price of $8 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

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

In January 2012, the Company acquired all of the outstanding capital stock of Baehr Thermoanalyse GmbH (Baehr), a German manufacturer of a wide-range of thermal analyzers, for $12 million in cash, including the assumption of $1 million of debt. Baehr was acquired to expand TA s thermal analysis instrument product offering and to leverage the Company s distribution channels. The purchase price of the acquisition was allocated to tangible and intangible assets and assumed liabilities based on their estimated fair values. The Company has allocated $4 million of the purchase price to intangible assets comprised of technology and $1 million to customer relationships and other intangibles. The Company is amortizing the customer relationships and the acquired technology over ten years. The remaining purchase price of $7 million has been accounted for as goodwill. The goodwill is not deductible for tax purposes.

The principal factor that resulted in recognition of goodwill in these acquisitions is that the purchase price was based in part on cash flow projections assuming the integration of any acquired technology, distribution channels and products with our products, which is of considerably greater value than utilizing each of the acquired companies technology, customer access or products on a stand-alone basis. The goodwill also includes value assigned to assembled workforce, which cannot be recognized as an intangible asset. In each acquisition, the sellers provided the Company with customary representations, warranties and indemnification, which would be settled in the future if and when a breach of the contractual representation or warranty condition occurs. The acquisitions are expected to add approximately $10 million on a full-year basis to the Company s annual sales. The impact of these acquisitions on the Company s net income since the acquisition date for the nine months ended September 29, 2012 was not significant.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the fair values, as determined by the Company, of 100% of the assets and liabilities owned and recorded in connection with the acquisitions of Blue Reference, the Israeli sales and service distributor and Baehr (in thousands):

Cash	$ 1,148
Accounts receivable	319
Inventory	2,887
Property, plant and equipment	1,254
Other assets	412
Goodwill	18,460
Intangible assets	15,966
Total assets acquired	40,446
Accrued expenses and other current liabilities	2,896
Debt	732
Deferred tax liability	4,654
Cash consideration paid	$ 32,164

4 Goodwill and Other Intangibles

The carrying amount of goodwill was $316 million and $297 million at September 29, 2012 and December 31, 2011, respectively. The Company s acquisitions increased goodwill by $18 million (Note 3) and the effect of currency translation increased goodwill by $1 million for the nine months ended September 29, 2012.

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

	September 29, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period
Purchased intangibles	$ 153,589	$ 91,453	10 years	$ 138,001	$ 80,023	10 years
Capitalized software	276,919	147,550	5 years	253,379	138,573	5 years
Licenses	7,209	6,308	6 years	6,597	6,039	6 years
Patents and other intangibles	38,687	18,223	8 years	33,698	15,048	8 years
Total	$ 476,404	$ 263,534	7 years	$ 431,675	$ 239,683	7 years

During the nine months ended September 29, 2012, the Company acquired $16 million of purchased intangibles as a result of the acquisitions of Blue Reference, an Israeli sales and service distributor and Baehr (Note 3). Amortization expense for intangible assets was $11 million and $7 million for the three months ended September 29, 2012 and October 1, 2011, respectively. Amortization expense for intangible assets was $24 million and $23 million for the nine months ended September 29, 2012 and October 1, 2011, respectively. Included in amortization expense for both the three and nine months ended September 29, 2012 is $4 million of amortization expense related to the discontinuance of a product trade name intangible asset. Amortization expense for intangible assets is estimated to be approximately $43 million per year for the years 2013 through 2017. The estimated significant increase in amortization expense is due to amortization associated with capitalized software costs related to the launch of a new software product platform planned late in the fourth quarter of 2012. The carrying value of the new software platform was approximately $98 million as of September 29, 2012. These costs, including expenditures related to ongoing enhancements, will be amortized over ten years.

5 Debt

In July 2011, Waters entered into a new credit agreement (the 2011 Credit Agreement) that provides for a $700 million revolving facility and a $300 million term loan facility. In August 2012, as provided for in the 2011 Credit

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Agreement, the Company increased the revolving facility commitment by $200 million, bringing the total amount of the revolving facility commitment to $900 million. There were no other changes to the terms and conditions of the 2011 Credit Agreement. The revolving facility and term loan facility both mature on July 28, 2016 and require no scheduled prepayments before that date.

The interest rates applicable to the 2011 Credit Agreement are, at the Company s option, equal to either the base rate (which is the highest of (i) the prime rate, (ii) the federal funds rate plus 1/2%, or (iii) the one month LIBOR rate plus 1%) or the applicable 1, 2, 3, 6, 9 or 12 month LIBOR rate, in each case, plus an interest rate margin based upon the Company s leverage ratio, which can range between 0 to 20 basis points and between 85 basis points and 120 basis points, respectively. The facility fee on the 2011 Credit Agreement ranges between 15 basis points and 30 basis points. The 2011 Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1 and a leverage ratio test of not more than 3.25:1 for any period of four consecutive fiscal quarters, respectively. In addition, the 2011 Credit Agreement includes negative covenants, affirmative covenants, representations and warranties and events of default that are customary for investment grade credit facilities. The outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheets due to the fact that the Company utilizes the revolving line of credit to fund its working capital needs and can repay and re-borrow from the facility without penalty.

As of both September 29, 2012 and December 31, 2011, the Company had a total of $400 million of outstanding senior unsecured notes. Interest on the senior unsecured notes is payable semi-annually each year. The Company may prepay all or some of the senior unsecured notes at any time in an amount not less than 10% of the aggregate principal amount outstanding, plus the applicable make-whole amount. In the event of a change in control (as defined in the note purchase agreement) of the Company, the Company may be required to prepay the senior unsecured notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. These notes require that the Company comply with an interest coverage ratio test of not less than 3.50:1 and a leverage ratio test of not more than 3.50:1 for any period of four consecutive fiscal quarters, respectively. In addition, these notes include customary negative covenants, affirmative covenants, representations and warranties and events of default.

As of September 29, 2012, the Company was in compliance with all debt covenants.

The Company had the following outstanding debt at September 29, 2012 and December 31, 2011 (in thousands):

	September 29, 2012	December 31, 2011
Foreign subsidiary lines of credit	$ 7,703	$ 10,832
2011 Credit Agreement	440,000	280,000
Total notes payable and debt	447,703	290,832
Senior unsecured notes - Series A - 3.75%, due February 2015	100,000	100,000
Senior unsecured notes - Series B - 5.00%, due February 2020	100,000	100,000
Senior unsecured notes - Series C - 2.50%, due March 2016	50,000	50,000
Senior unsecured notes - Series D - 3.22%, due March 2018	100,000	100,000
Senior unsecured notes - Series E - 3.97%, due March 2021	50,000	50,000
2011 Credit Agreement	300,000	300,000
Total long-term debt	700,000	700,000

Total debt	$	1,147,703	$	990,832

As of September 29, 2012 and December 31, 2011, the Company had a total amount available to borrow of $459 million and $419 million, respectively, after outstanding letters of credit, under the 2011 Credit Agreement. The weighted-average interest rates applicable to the senior unsecured notes and 2011 Credit Agreement borrowings collectively were 2.15% and 2.33% at September 29, 2012 and December 31, 2011, respectively.

The Company and its foreign subsidiaries also had available short-term lines of credit totaling $111 million and $109 million at September 29, 2012 and December 31, 2011, respectively, for the purpose of short-term borrowing and issuance of commercial guarantees. At September 29, 2012 and December 31, 2011, the weighted-average interest rates applicable to these short-term borrowings were 2.11% and 2.02%, respectively.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Income Taxes

The Company accounts for its uncertain tax return reporting positions in accordance with the accounting standard for income taxes, which requires financial statement reporting of the expected future tax consequences of those tax reporting positions on the presumption that all concerned tax authorities possess full knowledge of those tax reporting positions, as well as all of the pertinent facts and circumstances, but prohibits any discounting of those unrecognized tax benefits for the time value of money.

The following is a summary of the activity in the Company s unrecognized tax benefits for the nine months ended September 29, 2012 and October 1, 2011 (in thousands):

	September 29, 2012	October 1, 2011
Balance at the beginning of the period	$ 73,199	$ 71,523
Change in uncertain tax benefits	(1,941)	1,485
Balance at the end of the period	$ 71,258	$ 73,008

The Company s uncertain tax return reporting positions are taken with respect to income tax return reporting periods beginning after December 31, 1999, which are the periods that generally remain open to income tax audit examination by the income tax authorities. The Company continuously monitors the lapsing of statutes of limitations on potential tax assessments for related changes in the measurement of unrecognized tax benefits, related net interest and penalties, and deferred tax assets and liabilities.

The Company is currently engaged in ongoing communications with tax authorities in the U.S., Japan and various other jurisdictions regarding examinations of the Company s tax returns related to matters for which the Company has previously recorded uncertain tax benefits. During the three months ended September 29, 2012, the Company did not record any material changes in the measurement of any unrecognized tax benefits, related net interest and penalties or deferred tax assets and liabilities due to settlement or possible settlement of tax audit examinations. As of September 29, 2012, the Company expects to record a reduction in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately $5 million, due to the lapsing of statutes of limitations on potential tax assessments within the next twelve months. As of September 29, 2012, the Company does not otherwise expect to record any material changes in the measurement of any unrecognized tax benefits, related net interest and penalties or deferred tax assets and liabilities due to settlement or possible settlement of tax audit examinations or due to the lapsing of statutes of limitations on potential tax assessments within the next twelve months.

The Company s effective tax rates for the three months ended September 29, 2012 and October 1, 2011 were 14.4% and 16.8%, respectively. The Company s effective tax rates for the nine months ended September 29, 2012 and October 1, 2011 were 14.7% and 15.6%, respectively. The income tax provision for the three and nine months ended September 29, 2012 was favorably impacted by return-to-provision adjustments and unfavorably impacted by shifts in pre-tax income between jurisdictions with different effective tax rates. Included in the income tax provision for the nine months ended October 1, 2011 is $2 million of tax benefit related to the reversal of reserves for interest related to an audit settlement in the United Kingdom. This tax benefit decreased the Company s effective tax rate by 0.5 percentage points in the prior year. The remaining differences between the effective tax rates for the current year as compared to the prior year were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

7 Litigation

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Stock-Based Compensation

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

The Company accounts for stock-based compensation costs in accordance with the accounting standard for stock-based compensation, which requires that all share-based payments to employees be recognized in the statements of operations based on their fair values. The Company recognizes the expense using the straight-line attribution method. The stock-based compensation expense recognized in the consolidated statements of operations is based on awards that ultimately are expected to vest; therefore, the amount of expense has been reduced for estimated forfeitures. The stock-based compensation accounting standard requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. If actual results differ significantly from these estimates, stock-based compensation expense and the Company s results of operations could be materially impacted. In addition, if the Company employs different assumptions in the application of this standard, the compensation expense that the Company records in the future periods may differ significantly from what the Company has recorded in the current period.

The consolidated statements of operations for the three and nine months ended September 29, 2012 and October 1, 2011 include the following stock-based compensation expense related to stock option awards, restricted stock, restricted stock unit awards and the employee stock purchase plan (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Cost of sales	$ 716	$ 587	$ 2,010	$ 1,912
Selling and administrative expenses	5,461	5,654	16,924	16,392
Research and development expenses	1,129	641	2,753	2,341
Total stock-based compensation	$ 7,306	$ 6,882	$ 21,687	$ 20,645

As of both September 29, 2012 and December 31, 2011, the Company had capitalized stock-based compensation costs of less than $1 million in inventory in the consolidated balance sheets. As of September 29, 2012 and December 31, 2011, the Company had capitalized stock-based compensation costs of $2 million and $3 million, respectively, in capitalized software in the consolidated balance sheets.

Stock Options

In determining the fair value of the stock options, the Company makes a variety of assumptions and estimates, including volatility measures, expected yields and expected stock option lives. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model. The Company uses implied volatility on its publicly traded options as the basis for its estimate of expected volatility. The Company believes that implied volatility is the most appropriate indicator of expected volatility because it is generally reflective of historical volatility and expectations of how future volatility will differ from historical volatility. The expected life assumption for grants is based on historical experience for the population of non-qualified stock optionees. The risk-free interest rate is the yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximating the expected term used as the input to the Black-Scholes model. The relevant data used to determine the value of the stock options granted during the nine months ended September 29, 2012 and October 1, 2011 are as follows:

Options Issued and Significant Assumptions Used to Estimate Option Fair Values	September 29, 2012	October 1, 2011
Options issued in thousands	32	32
Risk-free interest rate	1.0%	2.1%
Expected life in years	6	6

Expected volatility	0.380	0.290
Expected dividends		

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted-Average Exercise Price and Fair Value of Options on the Date of Grant	September 29, 2012	October 1, 2011
Exercise price	$ 75.94	$ 78.10
Fair value	$ 28.68	$ 25.25

The following table summarizes stock option activity for the plans for the nine months ended September 29, 2012 (in thousands, except per share data):

	Number of Shares	Price per Share	Weighted-Average Exercise Price
Outstanding at December 31, 2011	4,809	$ 21.39 to $ 79.15	$ 56.71
Granted	32	$ 75.94	$ 75.94
Exercised	(464)	$ 21.39 to $ 79.05	$ 38.57
Canceled	(68)	$ 41.20 to $ 77.94	$ 64.71
Outstanding at September 29, 2012	4,309	$ 21.39 to $ 79.15	$ 58.68

Restricted Stock

During the nine months ended September 29, 2012, the Company granted twelve thousand shares of restricted stock. The fair value of these awards on the grant date was $75.94 per share. The restrictions on these shares lapse at the end of a three-year period.

Restricted Stock Units

The following table summarizes the unvested restricted stock unit award activity for the nine months ended September 29, 2012 (in thousands, except for per share amounts):

	Shares	Weighted-Average Price
Unvested at December 31, 2011	654	$ 57.94
Granted	161	$ 87.81
Vested	(225)	$ 55.21
Forfeited	(13)	$ 59.68
Unvested at September 29, 2012	577	$ 67.30

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

9 Earnings Per Share

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

	Three Months Ended September 29, 2012		
	Net Income (Numerator)	Weighted-Average Shares	Per Share Amount

		(Denominator)	
Net income per basic common share	$ 99,109	87,411	$ 1.13
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,040	
Net income per diluted common share	$ 99,109	88,451	$ 1.12

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended October 1, 2011		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	$ 101,257	90,688	$ 1.12
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,372	
Net income per diluted common share	$ 101,257	92,060	$ 1.10

	Nine Months Ended September 29, 2012		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	$ 285,499	88,234	$ 3.24
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,133	
Net income per diluted common share	$ 285,499	89,367	$ 3.19

	Nine Months Ended October 1, 2011		
	Net Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Net income per basic common share	$ 295,821	91,334	$ 3.24
Effect of dilutive stock option, restricted stock and restricted stock unit securities		1,564	
Net income per diluted common share	$ 295,821	92,898	$ 3.18

For both the three and nine months ended September 29, 2012, the Company had 1.3 million stock options that were antidilutive due to having higher exercise prices than the Company s average stock price during the period. For both the three and nine months ended October 1, 2011, the Company had 0.7 million stock options that were antidilutive. These securities were not included in the computation of diluted EPS. The effect of dilutive securities was calculated using the treasury stock method.

10 Retirement Plans

The Company sponsors various retirement plans. The summary of the components of net periodic pension costs for the plans for the three and nine months ended September 29, 2012 and October 1, 2011 is as follows (in thousands):

	Three Months Ended					
	September 29, 2012			October 1, 2011		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans

Service cost	$ 3	$ 182	$ 948	$	$ 134	$ 936
Interest cost	1,452	90	499	1,554	94	519
Expected return on plan assets	(1,905)	(66)	(209)	(1,880)	(69)	(222)
Net amortization:						
Prior service credit		(13)	(69)		(13)	(22)
Net actuarial loss	752		93	433		91
Net periodic pension cost	$ 302	$ 193	$ 1,262	$ 107	$ 146	$ 1,302

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended					
	September 29, 2012			October 1, 2011		
	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans	U.S. Pension Plans	U.S. Retiree Healthcare Plan	Non-U.S. Pension Plans
Service cost	$ 7	$ 545	$ 2,842	$	$ 402	$ 2,862
Interest cost	4,355	271	1,497	4,662	282	1,570
Expected return on plan assets	(5,714)	(197)	(627)	(5,640)	(207)	(669)
Net amortization:						
Prior service credit		(40)	(206)		(39)	(22)
Net actuarial loss	2,256		278	1,299		268
Net periodic pension cost	$ 904	$ 579	$ 3,784	$ 321	$ 438	$ 4,009

Included in the net periodic pension cost for the three and nine months ended September 29, 2012 and October 1, 2011 above are certain immaterial non-U.S. pension plans that were previously omitted from this disclosure. For the three and nine months ended September 29, 2012, the Company contributed $4 million and $5 million, respectively, to the Company s U.S. pension plans. During fiscal year 2012, the Company expects to contribute a total of approximately $7 million to $9 million to the Company s defined benefit plans.

11 Business Segment Information

The Company s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision makers. As a result of this evaluation, the Company determined that it has two operating segments: Waters Division and TA Division.

Waters Division is primarily in the business of designing, manufacturing, distributing and servicing LC and MS instruments, columns and other chemistry consumables that can be integrated and used along with other analytical instruments. TA Division is primarily in the business of designing, manufacturing, distributing and servicing thermal analysis, rheometry and calorimetry instruments. The Company s two divisions are its operating segments and each has similar economic characteristics; product processes; products and services; types and classes of customers; methods of distribution and regulatory environments. Because of these similarities, the two segments have been aggregated into one reporting segment for financial statement purposes. Please refer to the consolidated financial statements for financial information regarding the one reportable segment of the Company.

Net sales for the Company s products and services are as follows for the three and nine months ended September 29, 2012 and October 1, 2011 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Product net sales:				
Waters instrument systems	$ 202,513	$ 212,664	$ 583,081	$ 616,596
Chemistry	73,126	72,104	220,026	220,125
TA instrument systems	35,184	36,580	108,078	104,113
Total product sales	310,823	321,348	911,185	940,834
Service net sales:				
Waters service	126,434	121,245	372,708	354,523
TA service	12,695	11,941	37,982	34,407

Total service sales	139,129	133,186	410,690	388,930
Total net sales	$ 449,952	$ 454,534	$ 1,321,875	$ 1,329,764

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Recent Accounting Standard Changes and Developments

Recently Adopted Accounting Standards

In June 2011, a new accounting standard was issued relating to the presentation of comprehensive income. The adoption of this standard in the nine months ended September 29, 2012 did not have a material effect on the Company s financial position, results of operations or cash flows.

In September 2011, amended accounting guidance was issued for goodwill in order to simplify how companies test goodwill for impairment. The adoption of this standard in the nine months ended September 29, 2012 did not have a material effect on the Company s financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In July 2012, amended accounting guidance was issued for indefinite lived intangible assets other than goodwill in order to simplify how companies test indefinite-lived intangible assets for impairment. This guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

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Item 2: ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Business and Financial Overview

The Company has two operating segments: the Waters Division and the TA Division (TA®). The Waters Division s products and services primarily consist of high performance liquid chromatography (HPLC), ultra performance liquid chromatography (UPLC® and together with HPLC, referred to as LC), mass spectrometry (MS) and chemistry consumable products and related services. TA products and services primarily consist of thermal analysis, rheometry and calorimetry instrument systems and service sales. The Company s products are used by pharmaceutical, life science, biochemical, industrial, food, environmental, academic and governmental customers. These customers use the Company s products to detect, identify, monitor and measure the chemical, physical and biological composition of materials and to predict the suitability of fine chemicals, polymers and viscous liquids in consumer goods and healthcare products.

The Company s operating results are as follows for the three and nine months ended September 29, 2012 and October 1, 2011 (in thousands):

	Quarterly Results Three Months Ended			Year-To-Date Results Nine Months Ended		
	September 29, 2012	**October 1, 2011**	***% change***	**September 29, 2012**	**October 1, 2011**	***% change***
Product sales	$ 310,823	$ 321,348	*(3%)*	$ 911,185	$ 940,834	*(3%)*
Service sales	139,129	133,186	*4%*	410,690	388,930	*6%*
Total net sales	449,952	454,534	*(1%)*	1,321,875	1,329,764	*(1%)*
Total cost of sales	182,702	180,318	*1%*	529,251	526,250	*1%*
Gross profit	267,250	274,216	*(3%)*	792,624	803,514	*(1%)*
Gross profit as a % of sales	*59.4%*	*60.3%*		*60.0%*	*60.4%*	
Selling and administrative expenses	115,322	121,211	*(5%)*	355,123	363,774	*(2%)*
Research and development expenses	23,756	23,372	*2%*	71,046	68,640	*4%*
Purchased intangibles amortization	6,427	2,369	*171%*	11,370	7,374	*54%*
Litigation provision				3,000		
Operating income	121,745	127,264	*(4%)*	352,085	363,726	*(3%)*
Operating income as a % of sales	*27.1%*	*28.0%*		*26.6%*	*27.4%*	
Interest expense, net	(5,923)	(5,546)	*7%*	(17,492)	(13,155)	*33%*
Income from operations before income taxes	115,822	121,718	(5%)	334,593	350,571	(5%)
Provision for income taxes	16,713	20,461	*(18%)*	49,094	54,750	*(10%)*
Net income	$ 99,109	$ 101,257	*(2%)*	$ 285,499	$ 295,821	*(3%)*
Net income per diluted common share	$ 1.12	$ 1.10	*2%*	$ 3.19	$ 3.18	

Sales for the quarter decreased 1%, with the effect of foreign currency translation negatively impacting the quarter s sales by 3% across all products and services. The decrease in the quarter s sales was primarily attributable to a 5% decrease in instrument system sales that was offset by a 3% increase in combined sales of chemistry consumables and service. Service sales grew 4% and chemistry sales grew 1%. Instrument system sales decreased in the quarter primarily due to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee.

Geographically, sales decreased in the quarter by 6% in Europe and 4% in the U.S., while sales increased 6% in Asia (including Japan) and 7% in the rest of the world. The decline in Europe s sales was due to an 11% negative effect of foreign currency translation. Asia s sales benefited from continued double-digit growth in China, principally in governmental and academic markets. This sales growth was partially offset by a decline in sales in India, as the weakening of the rupee has impacted capital expenditures by Indian customers.

Sales to pharmaceutical customers in the quarter increased 1%. Combined global sales to governmental and academic customers decreased 3% and combined sales to industrial chemical, food safety and environmental customers decreased 3%.

Sales for the year decreased 1%, compared with the prior year, as a 4% increase in combined sales of chemistry consumables and services was offset by a 4% decrease in instrument system sales. The decline in instrument system sales was primarily attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. The effect of foreign currency translation negatively impacted year-to-date sales by 3%.

Sales for the year increased 4% in Asia and 1% in the U.S., while sales decreased 6% in Europe and 5% in the rest of the world. Asia continued to experience a double-digit sales growth rate in China, particularly in the governmental markets. The growth in China was offset by a decline in capital expenditures by customers in India, mostly for Alliance instrument systems, which resulted from a weaker Indian rupee. The decline in Europe s sales was due to an 8% negative effect of foreign currency translation and the decline in the rest of the world s sales was due to lower demand from governmental and academic customers.

Sales for the year to pharmaceutical customers increased 1% compared to the prior year. Combined sales to industrial chemical, food safety and environmental customers decreased 1% and combined global sales to governmental and academic customers were 3% lower as a result of a decline in instrument system sales.

Selling and administrative expenses decreased 5% and 2% for the quarter and year, respectively, primarily due to lower incentive compensation expense related to lower full-year performance expectations and a benefit from the effect of foreign currency translation. This favorability was partially offset by increases in headcount and merit compensation and fringe benefit costs. Purchased intangibles amortization increased for both the quarter and year due to $4 million of amortization expense related to the discontinuance of a product trade name intangible asset.

The increase in net income per diluted share in the quarter and year was principally attributable to fewer shares outstanding, as the benefit from the additional shares repurchased was offset by a decrease in net income and negative effects of foreign currency translation.

Net cash provided by operating activities for the year was $318 million in 2012 and $347 million in 2011. The $29 million decrease was primarily a result of lower net income in 2012, the timing of cash collections from customers and the timing of payments to vendors.

Within cash flows used in investing activities, year-to-date capital expenditures related to property, plant, equipment and software capitalization were $73 million and $51 million in 2012 and 2011, respectively. The current year s capital expenditures include $23 million of construction costs and the acquisition of a building in the United Kingdom associated with a multi-year project to consolidate certain existing primary MS research, manufacturing and distribution locations. In 2012, the Company acquired its Israeli sales and service distributor, Baehr Thermoanalyse GmbH and Blue Reference, Inc. for a total of $31 million, net of cash acquired and including the assumption of $1 million of debt. These acquisitions are expected to add approximately $10 million to annual sales and are not expected to have a material impact on earnings in 2012.

Within cash flows used in financing activities, the Company received $21 million and $46 million of proceeds from stock plans in 2012 and 2011, respectively. Fluctuations in these amounts were primarily attributable to changes in the Company s stock price and the expiration of stock option grants. In August 2012, as permitted by the credit agreement dated July 2011 (the 2011 Credit Agreement), the Company increased the revolving facility commitment by $200 million, bringing the total amount of the revolving facility commitment to $900 million. There were no other changes to the terms and conditions of the 2011 Credit Agreement. In May 2012, the Company s Board of Directors authorized the Company to repurchase up to $750 million of its outstanding common stock over a two-year period. The Company repurchased $229 million and $292 million of the Company s outstanding common stock in 2012 and 2011, respectively, under the existing stock repurchase programs.

Results of Operations

Net Sales

Product sales for both the quarter and year decreased 3%. TA Division s product sales declined 4% for the quarter and grew 4% for the year, while Waters Division product sales declined 3% and 4%, respectively. The decreases in

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the Waters Division product sales for both the quarter and the year were attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. Foreign currency translation decreased product sales by 3% for both the quarter and the year.

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

Waters Division Sales

Waters Division sales decreased 1% for both the quarter and year. The effect of foreign currency translation impacted the Waters Division across all product lines, resulting in a decrease in total sales of 3% for both the quarter and year.

Waters instrument system sales (LC and MS) decreased 5% for both the quarter and year. The declines in instrument systems sales were primarily attributable to delays in capital spending by our customers as a result of the weakness in global economic conditions and the weakening of the Euro and Indian rupee. Chemistry consumables sales increased 1% in the quarter and were flat thus far this year. Waters Division service sales increased 4% and 5% in the quarter and year, respectively, due to increased sales of service plans and billings to a higher installed base of customers. Waters Division sales by product line for the current year were approximately 50% for instrument systems, 19% for chemistry consumables and 31% for service. Waters Division sales by product line for the prior year were approximately 52% for instrument systems, 18% for chemistry consumables and 30% for service.

Waters Division sales in the quarter decreased 7% in Europe and 5% in the U.S., while sales increased 7% in Asia and 8% in the rest of the world. Waters Division sales for the year increased 3% in Asia and 1% in the U.S., while sales decreased 7% in Europe and 2% in the rest of the world. The decline in Europe s sales was due to a 10% and 8% negative effect of foreign currency translation in the quarter and year, respectively. The sales growth in Asia for both the quarter and the year occurred primarily in China and was across all markets. The increase in sales in the rest of the world in the quarter was due to the higher demand from governmental and academic customers.

TA Division Net Sales

TA s sales were 1% lower in the quarter and 5% higher in the year. Foreign currency translation decreased TA s sales by 2% for both the quarter and year across all product lines. Recent acquisitions added approximately 4% to TA s quarter and year-to-date sales. Instrument system sales decreased 4% in the quarter and increased 4% year-to-date. Instrument system sales represented approximately 74% of TA s sales in the current year and 75% in the prior year. TA service sales increased 6% and 10% in the quarter and year, respectively, primarily due to increased sales of service plans and billings to a higher installed base of customers. Geographically, TA s sales in the quarter grew 5% in Europe and declined in the U.S., Asia and the rest of the world. TA s sales year-to-date have increased in the U.S., Europe, and Asia, while sales to the rest of the world declined. TA s European sales benefited from additional sales from recent acquisitions, while the effect of foreign currency translation decreased Europe s sales by 9% and 8% in the quarter and year, respectively.

Gross Profit

Gross profit decreased 3% and 1% for the quarter and year, respectively. Comparatively, gross profit as a percentage of sales decreased to 59.4% from 60.3% in the quarter and to 60.0% from 60.4% year-to-date. These declines can be primarily attributed to changes in instrument systems product mix and the negative effects of foreign currency translation.

Gross profit as a percentage of sales is affected by many factors, including, but not limited to, product mix and product costs of instrument systems and associated software platforms. Beginning in late 2012, the Company expects to introduce several new products and software platforms whose cost and amortization of capitalized software development costs will affect the Company s product mix and may lower associated gross profit margins slightly as a percentage of sales. See Note 4 in the Notes to the Consolidated Financial Statements for estimated future amortization expense.

Selling and Administrative Expenses

Selling and administrative expenses decreased 5% and 2% for the quarter and year, respectively. The decrease was a result of lower sales commission and incentive bonus costs and the effects of foreign currency translation, offset by costs associated with headcount additions and higher merit compensation and fringe benefit costs. As a percentage of net sales, selling and administrative expenses were 25.6% for the current year quarter, 26.9% for the current year-to-date, 26.7% for the prior year quarter and 27.4% for the prior year-to-date.

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Litigation Provision

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

Research and Development Expenses

Research and development expenses increased 2% and 4% for the quarter and year, respectively. The increases in research and development expenses were primarily due to development costs incurred on new products.

Provision for Income Taxes

The four principal jurisdictions the Company manufactures in are the U.S., Ireland, the United Kingdom and Singapore, where the marginal effective tax rates are approximately 37.5%, 12.5%, 24.5% and 0%, respectively. The Company has a contractual tax rate in Singapore of 0% through the end of 2016, while the current statutory tax rate in Singapore is 17%. The Company s effective tax rate is influenced by many significant factors, including, but not limited to, the wide range of income tax rates in jurisdictions in which the Company operates; sales volumes and profit levels in each tax jurisdiction, including shifts between these jurisdictions; changes in tax laws, tax rates and policies; the outcome of various ongoing tax audit examinations; and the impact of foreign currency transactions and translation. As a result of variability in these factors, the Company s effective tax rates in the future may not be similar to the effective tax rates for the current or prior year.

The Company s effective tax rate for the quarter decreased to 14.4% from 16.8%. The Company s year-to-date effective tax rate decreased to 14.7% from 15.6%. The income tax provision for the current quarter and year-to-date was favorably impacted by return-to-provision adjustments and unfavorably impacted by shifts in pre-tax income between jurisdictions with different effective tax rates. Included in the income tax provision for the prior year is $2 million of tax benefit related to the reversal of reserves for interest related to an audit settlement in the United Kingdom. This tax benefit decreased the Company s effective tax rate by 0.5 percentage points in the prior year. The remaining differences between the effective tax rates for the current year as compared to the prior year were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flows (in thousands):

	Nine Months Ended	
	September 29, 2012	**October 1, 2011**
Net income	$ 285,499	$ 295,821
Depreciation and amortization	51,225	50,045
Stock-based compensation	21,687	20,645
Deferred income taxes	(9,382)	(7,072)
Change in accounts receivable	5,506	10,040
Change in inventories	(36,558)	(46,235)
Change in accounts payable and other current liabilities	(18,971)	(11,937)
Change in deferred revenue and customer advances	16,217	20,970
Other changes	2,404	15,035
Net cash provided by operating activities	317,627	347,312
Net cash used in investing activities	(298,851)	(194,714)
Net cash used in financing activities	(53,396)	(37,953)
Effect of exchange rate changes on cash and cash equivalents	6,923	783
(Decrease) increase in cash and cash equivalents	$ (27,697)	$ 115,428

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Cash Flow from Operating Activities

Net cash provided by operating activities was $318 million and $347 million in the nine months ended September 29, 2012 and October 1, 2011, respectively. The changes within net cash provided by operating activities in 2012 as compared to 2011 include the following significant changes in the sources and uses of net cash provided by operating activities, aside from the decrease in net income:

The change in accounts receivable in 2012 compared to 2011 was primarily attributable to timing of shipments and payments made by customers and lower sales volumes in 2012 as compared to 2011. Days-sales-outstanding (DSO) increased to 73 days at September 29, 2012 from 71 days at October 1, 2011. The effect of foreign currency had no impact on DSO s in 2012 as compared to 2011.

A lower increase in inventory levels in 2012 due to lower instrument systems volumes.

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

Net cash provided from deferred revenue and customer advances in both 2012 and 2011 was a result of the higher installed base of customers renewing annual service contracts.

Other changes were attributable to variation in the timing of various provisions, expenditures and accruals in other current assets, other assets and other liabilities.

Cash Used in Investing Activities

Net cash used in investing activities totaled $299 million and $195 million in 2012 and 2011, respectively. Additions to fixed assets and capitalized software were $73 million in 2012 and $51 million in 2011. The current year s capital expenditures include $23 million of construction costs and the acquisition of a building in the United Kingdom associated with a multi-year project to consolidate certain existing primary MS research, manufacturing and distribution locations. During 2012 and 2011, the Company purchased $1,385 million and $1,297 million of short-term investments while $1,190 million and $1,165 million of short-term investments matured, respectively. Business acquisitions, net of cash acquired, were $31 million during 2012 and $11 million in 2011.

Cash Used in Financing Activities

In August 2012, as provided for in the 2011 Credit Agreement, the Company increased the revolving facility commitment by $200 million, bringing the total amount of the revolving facility commitment to $900 million. There were no other changes to the terms and conditions of the 2011 Credit Agreement. During 2012 and 2011, the Company s total debt borrowings increased by $156 million and $206 million, respectively. As of September 29, 2012, the Company had a total of $1,148 million in outstanding debt, which consisted of $400 million in outstanding notes, $300 million borrowed under the term loan facility under the 2011 Credit Agreement, $440 million borrowed under revolving credit facilities under the 2011 Credit Agreement and $8 million borrowed under various other short-term lines of credit. The outstanding portions of the revolving facilities have been classified as short-term liabilities in the consolidated balance sheets due to the fact that the Company utilizes the revolving line of credit to fund its working capital needs. It is the Company s intention to pay the outstanding revolving line of credit balance during the subsequent twelve months following the respective period end date; however, there can be no assurance that it will be able to do so. As of September 29, 2012, the Company had a total amount available to borrow under the 2011 Credit Agreement of $459 million after outstanding letters of credit.

In May 2012, the Company s Board of Directors authorized the Company to repurchase up to $750 million of its outstanding common stock over a two-year period. During 2012 and 2011, the Company repurchased a total of 2.8 million and 3.6 million shares at a cost of $229 million and $292 million, respectively, under existing share repurchase programs. As of September 29, 2012, the Company repurchased an aggregate of 6.0 million shares of its common stock under the now expired share repurchase program authorized in February 2011 for an aggregate cost of $497 million. As of September 29, 2012, the Company had a total of $704 million authorized for future repurchases under the new share repurchase program. In addition, the Company repurchased $6 million of common stock during both 2012 and 2011 related to the vesting of restricted stock units.

The Company received $21 million and $46 million of proceeds from the exercise of stock options and the purchase of shares pursuant to the Company s employee stock purchase plan in 2012 and 2011, respectively.

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The Company had cash, cash equivalents and short-term investments of $1.4 billion as of September 29, 2012. The majority of the Company s cash, cash equivalents and short-term investments are generated from foreign operations, with approximately $1.4 billion (mostly denominated in U.S. dollars) held in accounts of foreign subsidiaries at September 29, 2012. Due to the fact that most of the Company s cash, cash equivalents and short-term investments are held outside of the U.S., the Company must manage and maintain sufficient levels of cash flow in the U.S. to fund operations and capital expenditures, service debt and interest, finance potential U.S. acquisitions and continue to repurchase shares under the authorized stock repurchase program in the U.S. These U.S. cash requirements are managed by the Company s cash flow from U.S. operations and the use of the Company s revolving credit facilities.

Management believes, as of the date of this report, that its financial position, particularly in the U.S., along with expected future cash flows from earnings based on historical trends and the ability to raise funds from external sources and the borrowing capacity from committed credit facilities will be sufficient to service debt and fund working capital and capital spending requirements, authorized share repurchase amounts, potential acquisitions and any adverse final determination of ongoing litigation and tax audit examinations for at least the next twelve months. In addition, there have been no recent significant changes to the Company s financial position, nor are there any anticipated changes in the next twelve months, to warrant a material adjustment related to indefinitely reinvested foreign earnings.

Contractual Obligations and Commercial Commitments

A summary of the Company s contractual obligations and commercial commitments is included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the U.S. Securities and Exchange Commission (SEC) on February 24, 2012. The Company reviewed its contractual obligations and commercial commitments as of September 29, 2012 and determined that there were no material changes from the information set forth in the Annual Report on Form 10-K.

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

For the nine months ended September 29, 2012, the Company contributed $5 million to the Company s U.S. pension plans. During fiscal year 2012, the Company expects to contribute a total of approximately $7 million to $9 million to the Company s defined benefit plans.

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

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

Critical Accounting Policies and Estimates

In the Company s Annual Report on Form 10-K for the year ended December 31, 2011, the Company s most critical accounting policies and estimates upon which its financial status depends were identified as those relating to revenue recognition, loss provisions on accounts receivable and inventory, valuation of long-lived assets, intangible assets and goodwill, warranty, income taxes, pension and other postretirement benefit obligations, litigation and stock-based compensation. The Company reviewed its policies and determined that those policies remain the Company s most critical accounting policies for the nine months ended September 29, 2012. The Company did not make any changes in those policies during the nine months ended September 29, 2012.

New Accounting Pronouncements

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

Special Note Regarding Forward-Looking Statements

Certain of the statements in this Quarterly Report on Form 10-Q, including the information incorporated by reference herein, may contain forward-looking statements within the meaning of Section 27A of the Securities Act

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of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), with respect to future results and events, including statements regarding, among other items, anticipated trends or growth in the Company s business, including, but not limited to, the growth rate of sales; new product launches; geographic sales mix of business; anticipated expenses, including interest expense, capitalized software costs, effective tax rates, and amortization expense; the impact of foreign currency translation; any adverse impact of the Company s various ongoing tax audit examinations and litigation matters; the impact of the loss of intellectual property protection; the effect of new accounting pronouncements; use of the Company s debt proceeds; the impact of regulatory compliance; the Company s expected cash flow, borrowing capacity, debt repayment and refinancing; the Company s ability to fund working capital, capital expenditures (including facility expansion and consolidation projects), service debt, repay outstanding lines of credit, make authorized share repurchases and potential acquisitions; recording any impairment charges; the Company s contributions to defined benefit plans; the Company s expectations regarding the payment of dividends; the impact of recent acquisitions on sales and earnings.

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

Current global economic, sovereign and political conditions and uncertainties, particularly regarding the European debt crisis and the overall stability of the Euro and its suitability as a single currency; the Company s ability to access capital and maintain liquidity in volatile market conditions of customers; changes in timing and demand by the Company s customers and various market sectors, particularly if they should reduce capital expenditures; the effect of mergers and acquisitions on customer demand; and ability to sustain and enhance service.

Negative industry trends; introduction of competing products by other companies and loss of market share; pressures on prices from customers or resulting from competition; regulatory, economic and competitive obstacles to new product introductions; lack of acceptance of new products; expansion of our business in developing markets; spending by certain end-markets and ability to obtain alternative sources for components and modules.

Foreign exchange rate fluctuations that could adversely affect translation of the Company s future financial operating results and condition.

Increased regulatory burdens as the Company s business evolves, especially with respect to the Food and Drug Administration and Environmental Protection Agency, among others and regulatory, environmental and logistical obstacles affecting the distribution of the Company s products, completion of purchase order documentation by our customers and ability of customers to obtain letters of credit or other financing alternatives.

Risks associated with lawsuits, particularly involving claims for infringement of patents and other intellectual property rights.

The impact and costs incurred from changes in accounting principles and practices or tax rates; shifts in taxable income in jurisdictions with different effective tax rates; and the outcome of and costs associated with ongoing and future tax audit examinations or changes in respective country legislation affecting the Company s effective rates.

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

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

There have been no material changes in the Company s market risk during the nine months ended September 29, 2012. For information regarding the Company s market risk, refer to Item 7A of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012.

Item 4: ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company s chief executive officer and chief financial officer (principal executive and principal financial officer), with the participation of management, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective as of September 29, 2012 (1) to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its chief executive officer and chief financial officer, to allow timely decisions regarding the required disclosure and (2) to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Controls Over Financial Reporting

There have been no changes identified in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 29, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II: ***Other Information***

Item 1: ***Legal Proceedings***

There have been no material changes in the Company s legal proceedings during the nine months ended September 29, 2012 as described in Item 3 of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012, with the exception of a $3 million payment made in June 2012 to settle a complaint that was filed against the Company alleging patent infringement.

Item 1A: ***Risk Factors***

Information regarding risk factors of the Company is set forth under the heading Risk Factors under Part I, Item 1A in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 24, 2012. The Company reviewed its risk factors as of September 29, 2012 and determined that there were no material changes from the ones set forth in the Form 10-K. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and operating results.

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

Purchases of Equity Securities by the Issuer

The following table provides information about purchases by the Company during the three months ended September 29, 2012 of equity securities registered by the Company under the Exchange Act (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 to July 28, 2012		$		$ 770,695
July 29 to August 25, 2012	350	$ 77.65	350	$ 740,398
August 26 to September 29, 2012	450	$ 81.68	450	$ 703,642
Total	800	$ 79.92	800	$ 703,642

(1) The Company purchased 0.8 million shares of its outstanding common stock in the quarter ended September 29, 2012 in open market transactions pursuant to repurchase programs that were announced in February 2011 (the 2011 Program) and May 2012 (the 2012 Program). The 2011 Program has expired and the 2012 Program authorized the repurchase of up to $750 million of common stock in open market transactions over a two-year period.

Item 6: ***Exhibits***

Exhibit Number	Description of Document
10.35	Incremental Commitment Agreement, dated as of August 9, 2012, among Waters Corporation, JPMorgan Chase Bank, N.A., and other Lenders party thereto.
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 **	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 **	The following materials from Waters Corporation s Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements.

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

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SIGNATURE

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

WATERS CORPORATION

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

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

Date: November 2, 2012

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