WATERS CORP /DE/
Form 10-Q
May 06, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 2, 2016

or

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

For the transition period from __________ to __________.

Commission File Number: 01-14010

Waters Corporation

(Exact name of registrant as specified in its charter)

Delaware	**13-3668640**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

34 Maple Street

Milford, Massachusetts 01757

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

(508) 478-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of the registrant s common stock as of April 29, 2016: 80,941,488

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WATERS CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(unaudited)

	April 2, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 416,387	$ 487,665
Investments	2,088,781	1,911,598
Accounts receivable, less allowances for doubtful accounts and sales returns of $7,111 and $7,496 at April 2, 2016 and December 31, 2015, respectively	439,578	468,315
Inventories	287,048	263,415
Other current assets	78,825	82,540
Total current assets	3,310,619	3,213,533
Property, plant and equipment, net	336,798	333,355
Intangible assets, net	223,364	218,022
Goodwill	356,880	356,864
Other assets	140,734	146,903
Total assets	$ 4,368,395	$ 4,268,677
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and debt	$ 125,499	$ 175,309
Accounts payable	73,290	70,573
Accrued employee compensation	30,952	54,653
Deferred revenue and customer advances	190,601	141,505
Accrued income taxes	10,773	14,894
Accrued warranty	12,832	13,349
Other current liabilities	80,083	93,793
Total current liabilities	524,030	564,076
Long-term liabilities:		
Long-term debt	1,593,301	1,493,027
Long-term portion of retirement benefits	70,973	77,063
Long-term income tax liabilities	13,259	14,884
Other long-term liabilities	65,146	60,776
Total long-term liabilities	1,742,679	1,645,750

Total liabilities	2,266,709	2,209,826
Commitments and contingencies (Notes 5, 6 and 10)		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 5,000 shares authorized, none issued at April 2, 2016 and December 31, 2015		
Common stock, par value $0.01 per share, 400,000 shares authorized, 157,915 and 157,677 shares issued, 80,919 and 81,472 shares outstanding at April 2, 2016 and December 31, 2015, respectively	1,579	1,577
Additional paid-in capital	1,515,833	1,490,342
Retained earnings	4,957,618	4,863,566
Treasury stock, at cost, 76,996 and 76,205 shares at April 2, 2016 and December 31, 2015, respectively	(4,245,397)	(4,149,908)
Accumulated other comprehensive loss	(127,947)	(146,726)
Total stockholders equity	2,101,686	2,058,851
Total liabilities and stockholders equity	$ 4,368,395	$ 4,268,677

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

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WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(unaudited)

	Three Months Ended	
	April 2, 2016	**April 4, 2015**
Product sales	$ 307,857	$ 302,873
Service sales	167,389	157,531
Total net sales	475,246	460,404
Cost of product sales	129,258	121,953
Cost of service sales	71,893	67,293
Total cost of sales	201,151	189,246
Gross profit	274,095	271,158
Selling and administrative expenses	129,351	119,751
Research and development expenses	29,438	28,951
Purchased intangibles amortization	2,644	2,474
Operating income	112,662	119,982
Interest expense	(10,119)	(8,975)
Interest income	4,087	2,340
Income from operations before income taxes	106,630	113,347
Provision for income taxes	12,578	17,286
Net income	$ 94,052	$ 96,061
Net income per basic common share	$ 1.16	$ 1.16
Weighted-average number of basic common shares	81,275	83,025
Net income per diluted common share	$ 1.15	$ 1.15
Weighted-average number of diluted common shares and equivalents	81,974	83,752

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

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WATERS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS)

(unaudited)

	Three Months Ended	
	April 2, 2016	**April 4, 2015**
Net income	$ 94,052	$ 96,061
Other comprehensive income (loss):		
Foreign currency translation	16,051	(64,348)
Unrealized gains on investments before income taxes	3,289	2,767
Income tax expense	(93)	(116)
Unrealized gains on investments, net of tax	3,196	2,651
Retirement liability adjustment before reclassifications	(1,000)	2,136
Amounts reclassified to selling and administrative expenses	810	921
Retirement liability adjustment before income taxes	(190)	3,057
Income tax expense	(278)	(1,031)
Retirement liability adjustment, net of tax	(468)	2,026
Other comprehensive income (loss)	18,779	(59,671)
Comprehensive income	$ 112,831	$ 36,390

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)

	Three Months Ended	
	April 2, 2016	April 4, 2015
Cash flows from operating activities:		
Net income	$ 94,052	$ 96,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	15,841	8,455
Deferred income taxes	3,740	2,828
Depreciation	12,356	11,445
Amortization of intangibles	11,075	11,104
Change in operating assets and liabilities:		
Decrease in accounts receivable	38,254	24,961
Increase in inventories	(20,488)	(20,001)
Decrease (increase) in other current assets	1,037	(1,776)
Increase in other assets	(3,421)	(4,891)
Decrease in accounts payable and other current liabilities	(43,632)	(25,518)
Increase in deferred revenue and customer advances	45,586	42,555
Increase in other liabilities	5,486	9,367
Net cash provided by operating activities	159,886	154,590
Cash flows from investing activities:		
Additions to property, plant, equipment and software capitalization	(24,652)	(21,410)
Purchases of investments	(685,568)	(794,422)
Maturities and sales of investments	512,397	759,386
Net cash used in investing activities	(197,823)	(56,446)
Cash flows from financing activities:		
Proceeds from debt issuances	110,177	120,073
Payments on debt	(60,000)	(100,000)
Proceeds from stock plans	8,191	11,269
Purchases of treasury shares	(95,489)	(91,025)
Excess tax benefit related to stock option plans	1,619	2,757
Payments for derivative contracts	(1,895)	(3,348)
Net cash used in financing activities	(37,397)	(60,274)
Effect of exchange rate changes on cash and cash equivalents	4,056	(19,249)
(Decrease) increase in cash and cash equivalents	(71,278)	18,621
Cash and cash equivalents at beginning of period	487,665	422,177

Cash and cash equivalents at end of period	$ 416,387	$ 440,798

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

(unaudited)

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 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. 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), nutritional safety analysis and environmental testing. LC-MS instruments combine a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. In addition, the Company designs, manufactures, sells and services thermal analysis, rheometry and calorimetry instruments through its TA® product line. These instruments are used in predicting the suitability and stability of fine chemicals, pharmaceuticals, water, polymers, metals and viscous liquids for various industrial, consumer goods and healthcare products, as well as for pharmaceutical research. The Company is also a developer and supplier of software-based products that interface with the Company s instruments, as well as other suppliers 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 have more or less than thirteen complete weeks. The Company s first fiscal quarters for 2016 and 2015 ended on April 2, 2016 and April 4, 2015, 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, 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, 2015, as filed with the U.S. Securities and Exchange Commission on February 26, 2016.

Translation of Foreign Currencies

For most of the Company s foreign operations, assets and liabilities are translated into U.S. dollars at exchange rates prevailing on the balance sheet date, while revenues and expenses are translated at average exchange rates prevailing during the period. The functional currency of each of the Company s foreign operating subsidiaries is the local currency of that particular country, except for the Company s subsidiaries organized in Hong Kong, Singapore and the Cayman Islands, where the underlying transactional cash flows are denominated in currencies other than the respective local currency of domicile. The functional currency of the Hong Kong, Singapore and Cayman Islands subsidiaries is the U.S. dollar, based on the respective entity s cash flows.

Cash, Cash Equivalents and Investments

Cash equivalents represent highly liquid investments, with original maturities of 90 days or less, while investments with longer maturities are classified as investments. The Company maintains cash balances in various operating accounts in excess of federally insured limits, and in foreign subsidiary accounts in currencies other than U.S. dollars.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

As of April 2, 2016 and December 31, 2015, $2,478 million out of $2,505 million and $2,346 million out of $2,399 million, respectively, of the Company s total cash, cash equivalents and investments were held by foreign subsidiaries and may be subject to material tax effects on distribution to U.S. legal entities. In addition, $241 million out of $2,505 million and $248 million out of $2,399 million of cash, cash equivalents and investments were held in currencies other than U.S. dollars at April 2, 2016 and December 31, 2015, respectively.

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 April 2, 2016 and December 31, 2015. 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.

The following table represents the Company s assets and liabilities measured at fair value on a recurring basis at April 2, 2016 (in thousands):

	Total at April 2, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	$ 608,537	$	$ 608,537	$
Foreign government securities	27,011		27,011	
Corporate debt securities	1,433,296		1,433,296	
Time deposits	106,408		106,408	
Equity securities	147		147	
Other cash equivalents	27,000		27,000	
Waters 401(k) Restoration Plan assets	30,014		30,014	
Foreign currency exchange contracts	814		814	
Total	$ 2,233,227	$	$ 2,233,227	$
Liabilities:				
Contingent consideration	$ 4,412	$	$	$ 4,412
Foreign currency exchange contracts	628		628	
Total	$ 5,040	$	$ 628	$ 4,412

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

The following table represents the Company s assets and liabilities measured at fair value on a recurring basis at December 31, 2015 (in thousands):

	Total at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	$ 627,156	$	$ 627,156	$
Foreign government securities	15,199		15,199	
Corporate debt securities	1,324,318		1,324,318	
Time deposits	74,947		74,947	
Equity securities	147		147	
Other cash equivalents	27,000		27,000	
Waters 401(k) Restoration Plan assets	35,823		35,823	
Foreign currency exchange contracts	616		616	
Total	$ 2,105,206	$	$ 2,105,206	$
Liabilities:				
Contingent consideration	$ 4,215	$	$	$ 4,215
Foreign currency exchange contracts	402		402	
Total	$ 4,617	$	$ 402	$ 4,215

The fair values of the Company s cash equivalents, investments, 401(k) restoration plan assets and foreign currency exchange contracts are determined through market and observable sources and 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. After completing these validation procedures, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of April 2, 2016 and December 31, 2015.

Fair Value of Contingent Consideration

The fair value of the Company s liability for contingent consideration related to the July 2014 acquisition of Medimass Research, Development and Service Kft. is determined using a probability-weighted discounted cash flow model, which uses significant unobservable inputs, and has been classified as Level 3. Subsequent changes in the fair value of the contingent consideration liability are recorded in the results of operations. The fair value of the contingent consideration liability associated with future earnout payments is based on several factors, including the estimated future results and a discount rate that reflects both the likelihood of achieving the estimated future results and the Company s creditworthiness. A change in any of these unobservable inputs can significantly change the fair value of the contingent consideration. Although there is no contractual limit, the fair value of future contingent consideration payments was estimated to be $4 million at both April 2, 2016 and December 31, 2015, based on the Company s best estimate, as the earnout is based on future sales of certain products through 2034. There have been no changes in significant assumptions since December 31, 2015 and the change in fair value since then is primarily due to change in time value of money.

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 of the Company s fixed interest rate debt was $400 million and $450 million at April 2, 2016 and December 31, 2015, respectively. The fair value of the Company s fixed interest rate debt was estimated using discounted cash flow models, based on estimated current rates offered for similar debt under current market conditions for the Company. The fair value of the Company s fixed interest rate debt was estimated to be $410 million and $454 million at April 2, 2016 and December 31, 2015, respectively, using Level 2 inputs.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

Derivative Transactions

The Company is a global company that operates in over 35 countries and, as a result, the Company s net sales, cost of sales, operating expenses and balance sheet amounts are significantly impacted by fluctuations in foreign currency exchange rates. The Company is exposed to currency price risk on foreign currency exchange rate fluctuations when it translates its non-U.S. dollar foreign subsidiaries financial statements into U.S. dollars, and when any of the Company s subsidiaries purchase or sell products or services in a currency other than its own currency.

The Company s principal strategy in managing exposure to changes in foreign currency exchange rates is to naturally hedge the foreign-currency-denominated liabilities on the Company s balance sheet against corresponding assets of the same currency, such that any changes in liabilities due to fluctuations in foreign exchange rates are offset by corresponding changes in assets.

The Company does not specifically enter into any derivatives that hedge foreign-currency-denominated assets, liabilities or commitments on its balance sheet, other than a portion of certain third-party accounts receivable and accounts payable, and the Company s net worldwide intercompany receivables and payables, which are eliminated in consolidation. The Company periodically aggregates its net worldwide balances by currency and then enters into foreign currency exchange contracts that mature within 90 days to hedge a portion of the remaining balance to minimize some of the Company s currency price risk exposure. The foreign currency exchange contracts are not designated for hedge accounting treatment.

Principal hedged currencies include the Euro, Japanese yen, British pound and Brazilian real. At April 2, 2016 and December 31, 2015, the Company held foreign exchange contracts with notional amounts totaling $121 million and $116 million, respectively.

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

	April 2, 2016	December 31, 2015
Other current assets	$ 814	$ 616
Other current liabilities	$ 628	$ 402

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

	Three Months Ended	
	April 2, 2016	April 4, 2015
Realized losses on closed contracts	$ (1,895)	$ (3,348)
Unrealized (losses) gains on open contracts	(28)	342
Cumulative net pre-tax losses	$ (1,923)	$ (3,006)

Stockholders Equity

In May 2014, the Company s Board of Directors authorized the Company to repurchase up to $750 million of its outstanding common stock over a three-year period. The Company repurchased 0.7 million shares of the Company s outstanding common stock during both the three months ended April 2, 2016 and April 4, 2015 at a cost of $89 million and $85 million, respectively, under the May 2014 authorization and other previously announced programs. The Company has a total of $352 million authorized for future repurchases under the May 2014 plan. In addition, the Company repurchased $6 million of common stock related to the vesting of restricted stock units during both the three months ended April 2, 2016 and April 4, 2015. The Company believes that it has the financial flexibility to fund these share repurchases given current cash levels and debt borrowing capacity, as well as to invest in research, technology and business acquisitions to further grow the Company s sales and profits.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

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 suppliers, 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 three months ended April 2, 2016 and April 4, 2015 (in thousands):

	Balance at Beginning of Period	Accruals for Warranties	Settlements Made	Balance at End of Period
Accrued warranty liability:				
April 2, 2016	$ 13,349	$ 1,681	$ (2,198)	$ 12,832
April 4, 2015	$ 13,266	$ 1,762	$ (2,157)	$ 12,871

2 Marketable Securities

The Company s marketable securities within cash equivalents and investments included in the consolidated balance sheets are detailed as follows (in thousands):

	April 2, 2016			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
U.S. Treasury securities	$ 607,957	$ 621	$ (41)	$ 608,537
Foreign government securities	27,008	6	(3)	27,011
Corporate debt securities	1,432,889	1,055	(648)	1,433,296
Time deposits	106,408			106,408
Equity securities	77	70		147
Total	$ 2,174,339	$ 1,752	$ (692)	$ 2,175,399
Amounts included in:				
Cash equivalents	$ 86,618	$	$	$ 86,618
Investments	2,087,721	1,752	(692)	2,088,781
Total	$ 2,174,339	$ 1,752	$ (692)	$ 2,175,399

	December 31, 2015			
	Amortized Cost	**Unrealized Gain**	**Unrealized Loss**	**Fair Value**
U.S. Treasury securities	$ 628,358	$ 16	$ (1,218)	$ 627,156
Foreign government securities	15,216		(17)	15,199
Corporate debt securities	1,325,398	159	(1,239)	1,324,318
Time deposits	74,947			74,947
Equity securities	77	70		147
Total	$ 2,043,996	$ 245	$ (2,474)	$ 2,041,767
Amounts included in:				
Cash equivalents	$ 130,169	$	$	$ 130,169
Investments	1,913,827	245	(2,474)	1,911,598
Total	$ 2,043,996	$ 245	$ (2,474)	$ 2,041,767

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

The estimated fair value of marketable debt securities by maturity date is as follows (in thousands):

	April 2, 2016	December 31, 2015
Due in one year or less	$ 1,214,006	$ 1,137,825
Due after one year through three years	854,838	828,848
Total	$ 2,068,844	$ 1,966,673

3 Inventories

Inventories are classified as follows (in thousands):

	April 2, 2016	December 31, 2015
Raw materials	$ 92,701	$ 88,625
Work in progress	21,811	20,901
Finished goods	172,536	153,889
Total inventories	$ 287,048	$ 263,415

4 Intangibles

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

	April 2, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Weighted-Average Amortization Period
Capitalized software	$ 359,320	$ 219,880	6 years	$ 335,949	$ 204,267	7 years
Purchased intangibles	165,464	123,351	11 years	163,500	119,505	11 years
Trademarks and IPR&D	14,220			14,364		
Licenses	5,278	4,070	6 years	5,396	4,046	6 years
Patents and other intangibles	60,153	33,770	8 years	58,519	31,888	8 years
Total	$ 604,435	$ 381,071	7 years	$ 577,728	$ 359,706	8 years

During the three months ended April 2, 2016, the effect of foreign currency translation increased the gross carrying value of intangible assets and accumulated amortization for intangible assets by $16 million and $10 million, respectively. Amortization expense for intangible assets was $11 million for both the three months ended April 2, 2016 and April 4, 2015. Amortization expense for intangible assets is estimated to be approximately $44 million per year for each of the next five years.

5 Debt

In June 2013, the Company entered into a credit agreement that provides for a $1.1 billion revolving facility and a $300 million term loan facility. In April 2015, Waters entered into an amendment to this agreement (the Amended Credit Agreement). The Amended Credit Agreement provides for an increase of the revolving commitments from $1.1 billion to $1.3 billion and extends the maturity of the original credit agreement from June 25, 2018 until April 23, 2020. The Company plans to use future proceeds from the revolving facility for general corporate purposes.

The interest rates applicable to the Amended Credit Agreement are, at the Company s option, equal to either the alternate base rate calculated daily (which is a rate per annum equal to the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate in effect on such day plus 1/2% per annum, or (c) the adjusted LIBO rate on such day (or if such day is not a business day, the immediately preceding business day) for a deposit in U.S. dollars with a maturity of one month plus 1% per annum) or the applicable 1, 2, 3 or 6 month adjusted LIBO rate, in each case, plus an interest rate margin based upon the Company s leverage ratio, which can range between 0 to 12.5

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

basis points for alternate base rate loans and between 80 basis points and 117.5 basis points for adjusted LIBO rate loans. The facility fee on the Amended Credit Agreement ranges between 7.5 basis points and 20 basis points. The Amended Credit Agreement requires that the Company comply with an interest coverage ratio test of not less than 3.50:1 as of the end of any fiscal quarter for any period of four consecutive fiscal quarters and a leverage ratio test of not more than 3.50:1 as of the end of any fiscal quarter. In addition, the Amended Credit Agreement includes negative covenants, affirmative covenants, representations and warranties and events of default that are customary for investment grade credit facilities.

At April 2, 2016, $125 million of the outstanding portion of the revolving facility was classified as short-term liabilities in the consolidated balance sheet due to the fact that the Company expects to repay this portion of the borrowing under the revolving line of credit within the next twelve months. The remaining $845 million of the outstanding portion of the revolving facility was classified as long-term liabilities in the consolidated balance sheet, as this portion is not expected to be repaid within the next twelve months.

As of April 2, 2016 and December 31, 2015, the Company had a total of $450 million and $500 million of outstanding senior unsecured notes, respectively. Interest on the fixed rate senior unsecured notes is payable semi-annually each year. Interest on the floating rate senior unsecured notes is payable quarterly. 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 or prepayment premium for Series H senior unsecured notes. In the event of a change in control of the Company (as defined in the note purchase agreement), 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 senior unsecured notes require that the Company comply with an interest coverage ratio test of not less than 3.50:1 for any period of four consecutive fiscal quarters and a leverage ratio test of not more than 3.50:1 as of the end of any fiscal quarter. In addition, these senior unsecured notes include customary negative covenants, affirmative covenants, representations and warranties and events of default.

The Company had the following outstanding debt at April 2, 2016 and December 31, 2015 (in thousands):

	April 2, 2016	December 31, 2015
Foreign subsidiary lines of credit	$ 499	$ 322
Senior unsecured notes - Series C - 2.50%, due March 2016		50,000
Credit agreements	125,000	125,000
Unamortized debt issuance costs		(13)
Total notes payable and debt	125,499	175,309
Senior unsecured notes - Series B - 5.00%, due February 2020	100,000	100,000
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
Senior unsecured notes - Series F - 3.40%, due June 2021	100,000	100,000
Senior unsecured notes - Series G - 3.92%, due June 2024	50,000	50,000
Senior unsecured notes - Series H - floating rate*, due June 2024	50,000	50,000
Credit agreements	1,145,000	1,045,000
Unamortized debt issuance costs	(1,699)	(1,973)
Total long-term debt	1,593,301	1,493,027
Total debt	$ 1,718,800	$ 1,668,336

* Series H senior unsecured notes bear interest at 3 month LIBOR for that floating rate interest period plus 1.25%.
As of April 2, 2016 and December 31, 2015, the Company had a total amount available to borrow under existing credit agreements of $328 million and $428 million, respectively, after outstanding letters of credit. The weighted-average interest rates applicable to the senior unsecured notes and credit agreement borrowings collectively were 2.16% and 2.11% at April 2, 2016 and December 31, 2015, respectively. As of April 2, 2016, the Company was in compliance with all debt covenants.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

The Company and its foreign subsidiaries also had available short-term lines of credit totaling $100 million and $97 million at April 2, 2016 and December 31, 2015, respectively, for the purpose of short-term borrowing and issuance of commercial guarantees. The weighted-average interest rates applicable to these short-term borrowings were 1.48% and 1.24% at April 2, 2016 and December 31, 2015, respectively.

6 Income Taxes

The four principal jurisdictions in which the Company manufactures are the U.S., Ireland, the United Kingdom and Singapore, where the marginal effective tax rates were approximately 37.5%, 12.5%, 20% and 0%, respectively, as of April 2, 2016. The Company has a contractual tax rate in Singapore of 0% through March 2021, based upon the achievement of certain contractual milestones, which the Company expects to continue to meet. The current statutory tax rate in Singapore is 17%. For the first quarter of 2016, the effect of applying the contractual tax rate in Singapore, as compared with applying the statutory tax rate, increased net income by $4 million and increased net income per diluted share by $0.05.

The Company s effective tax rate was 11.8% and 15.3% for the three months ended April 2, 2016 and April 4, 2015, respectively. The decrease in the effective tax rate in 2016 as compared to 2015 can be attributed to a quarter-specific tax benefit associated with modifications to certain stock compensation awards. In addition, the income tax provision for 2015 included a quarter-specific tax provision related to a pending tax audit settlement. The remaining differences between the effective tax rate in 2016 and 2015 were primarily attributable to differences in the proportionate amounts of pre-tax income recognized in jurisdictions with different effective tax rates.

The Company accounts for its uncertain tax return reporting positions in accordance with the accounting standards for income taxes, which require financial statement reporting of the expected future tax consequences of uncertain 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 prohibit any discounting of unrecognized tax benefits associated with those reporting positions for the time value of money.

The following is a summary of the activity of the Company s unrecognized tax benefits for the three months ended April 2, 2016 and April 4, 2015 (in thousands):

	April 2, 2016	April 4, 2015
Balance at the beginning of the period	$ 14,450	$ 19,596
Net changes in uncertain tax benefits	(790)	933
Balance at the end of the period	$ 13,660	$ 20,529

With limited exceptions, the Company is no longer subject to tax audit examinations in significant jurisdictions for the years ended on or before December 31, 2012. However, carryforward tax attributes that were generated in years beginning on or before January 1, 2013 may still be adjusted upon examination by tax authorities if the attributes are utilized. 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. As of April 2, 2016, the Company expects to record additional reductions in the measurement of its unrecognized tax benefits and related net interest and penalties of approximately $6 million within the next twelve months due to potential tax audit settlements and the lapsing of statutes of limitations on potential tax assessments. The Company does not expect to record any other material reductions in the measurement of its unrecognized tax benefits within the next twelve months.

7 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 standards for stock-based compensation, which require that all share-based payments to employees be recognized in the statements of operations based on their grant date 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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

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 standards require 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 these standards, 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 months ended April 2, 2016 and April 4, 2015 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	
	April 2, 2016	April 4, 2015
Cost of sales	$ 671	$ 674
Selling		