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MKS INTEGRITY

Annual Report Fiscal Year 2009



MKS

2009 Annual Report

To Our Shareholders, Customers & Employees

Thriving and Positioning for Growth in a Turbulent 2009

MKS overcame the economic challenges of 2009 to produce our best year ever for customer success, strategic progress and operating profits. Even in a year where license revenue growth has been hard to find, we succeeded by focusing on winning new customers that can represent new sources of long term demand. We worked with our customers to deploy increasingly capable, sophisticated implementations and we made the investments in R&D needed to extend our technology leadership. In the end, using our unique application lifecycle management (“ALM”) platform to solve our customers’ most challenging problems resulted in a year that advanced our strategic objectives, delivered record operating profits and set us up for robust growth in the years ahead.

Earning New Customer Mandates

In 2009 we won more new product mandates and commitments with major customers around the world than ever before. This was made possible by our steadily improving ability to prove the advantages of MKS Integrity™ to the most demanding and knowledgeable software development organizations in the world. As it turned out, many of the most promising new customers we won didn’t have the capital budgets to buy licenses at the level we would have liked or expected. However, as these customers roll out their initial licenses, we anticipate that these significant sales initiatives will yield solid license growth in the years ahead.

This year we also saw an accelerating trend among major customers and prospects in the recognition that ALM needs to be much more than a loosely coupled set of tools. We have long championed the view that ALM must deliver the critical capabilities of configuration, collaboration and change management consistently applied across every task and artifact related to software development – something that disconnected tools can’t do. ALM has become strategic at the enterprise level, and purchase decisions are increasingly dependent on the ability of ALM products to unify processes and development artifacts (and not just replace existing disconnected systems). This directly affirms our strategy and product positioning and aligns us perfectly to this evolving market.

Our success in winning new mandates this year has been built on the experience we have gained in markets such as automotive systems, medical devices, handheld devices and banking. Our understanding of specific industry practices and challenges in these markets lets us apply that expertise to solve key business problems for immediate and productive impact. In many customer engagements, our expertise can be as important as the unique capabilities of the MKS Integrity platform.

The Growth of Unified ALM is in the Enterprise

ALM is becoming a strategic concern for any organization that creates or manages software on an enterprise scale. The amount of software found in cars, wireless devices and other products is doubling every eighteen to twenty-four months; in many cases, software deployed within major enterprises is increasing at a similar pace. This incredible acceleration in the scale and scope of software development and deployment demands an entirely new approach to managing the complex relationships between development artifacts, processes and resources. This approach is what MKS calls Unified ALM – we offer the ability to manage these increasingly complex development challenges through a uniquely capable ALM platform.

Organizations trying to solve the ALM challenge through disparate tools will discover that this only adds a technology barrier to the cultural and functional ‘silos’ that often exist in software development. The only reliable way to unify activities across the various participants in the software development process, to create linkages between artifacts, and to enforce processes that guarantee quality is to use a software development system that is built from the ground up as a single unified platform.

Additional strategic impact for MKS comes from major IT vendors, who are recognizing that IT application management is not complete without integration to ALM. MKS has become the most capable independent enterprise ALM vendor for partnerships with vendors of other enterprise platforms; we can better serve our mutual customers and more effectively compete against common competitors. Our increasing industry stature was highlighted by the partnership we signed with BMC Software, the worldwide leader in Business Service Management (BSM). The agreement means BMC can deliver our ALM capability integrated with their unified platform for running IT in an industry-leading solution. The partnership also affords MKS the opportunity to serve BMC customers in tracking and managing IT development in conjunction with IT Operations to deliver a composite view of IT.

In 2009 we again received top marks for product leadership from the leading IT analyst firms. Rankings awarded by analysts within the ALM sector consistently affirm that MKS products and vision are leading the industry. These independent assertions of MKS thought leadership are continually being echoed by our customers around the world.

Extending Our Platform, Completing Our Vision

We expect to release a major upgrade to MKS Integrity in August of 2009. With the addition of test management, our end-to-end ALM vision for MKS Integrity is now complete. We offer unparalleled breadth of capability in every aspect of Application Lifecycle Management

along with unmatched capabilities for configuration, collaboration and change management throughout. The test management market is compelling. In the immediate term, test management gives our existing customers end-to-end, fully automated application lifecycle capability. We have worked closely with our major customers in its development and these customers will likely be the first to implement. Beyond these immediate benefits, the capability opens up a billion-dollar market for us, as companies recognize the benefits of test management capability within an ALM platform - not just 'bolted on' or integrated post-sale. For MKS, test management represents an opportunity to complete the ALM vision that our customers are embracing as well as a major new market in its own right.

In the past 24 months we have also significantly invested in extending the scalability, performance and resilience of MKS Integrity. This has solidified our leadership position in enterprise readiness. We intend to take it even further in the years ahead as we stay well in front of the needs of our rapidly growing customer deployments.

Dealing with Economic Turbulence

The severe economic downturn of 2008 and 2009 resulted in lower licensing than we had planned. Despite the difficult economic climate, we earned more significant customer wins than in any year in our history - but many of these wins came with much lower initial license revenue than we have seen in the past. Winning these mandates always requires substantial resources in sales, services and support. We expect that after successful initial rollouts, and as the economy recovers, our investments in these relationships will be rewarded by significant additional license deployments.

The strength of our customer base has shone through in these difficult times. We have seen no deterioration in maintenance renewal rates from historical levels even in light of the severe budget constraints facing some of our customers. Particularly in times like these, maintaining quality, improving software development productivity and reducing product release cycles remain of paramount importance to our customers; MKS Integrity plays a vital role in the attainment of these objectives.

Record Financial Results

Financially we had our most successful year ever, with record profits, strong cash flow and continued balance sheet strength. While the challenges to new licensing prevented a revenue record, our non-license revenue increased and our overhead costs decreased. Relative currency levels were of particular import this past year. We enjoyed lower operating costs partly due to the lower value of the Canadian dollar, but also experienced lower growth in maintenance (in US

dollar terms) due to the declines in the Pound and Euro. As the Canadian dollar declined this year we began a program to hedge Canadian dollar costs in future periods. Although this program represented a net cost this year due to the pace of the dollar's decline, MKS has put in place contracts that will yield Canadian dollar prices close to the US\$0.80 cent level into fiscal 2011. This locks in attractive Canadian dollar levels for fiscal 2010 and beyond, ensuring that MKS has sufficient time to adjust to fluctuating currency levels and improve our ability to manage our business.

As the economy recovers, the investments that we have made this year in new customer acquisitions will show returns as those new customers deploy increasing amounts of MKS Integrity. We are committed to a return to sustainable growth, without sacrificing the steady profits that create discipline and strength in our business and consistent returns to our shareholders.

Working for our Shareholders

We continue to enjoy a very conservative balance sheet with strong cash balances. One of the helpful dynamics of our enterprise software business is that the sale of maintenance contracts prior to their revenue recognition represents a funding source that allows us to expand our business with very minimal investments in working capital, even as we continue to invest in the growth of critical research and sales resources. Three years ago we instituted a dividend to forestall the accumulation of cash not needed to fund our business. We continue to be enthusiastic about the role of dividends in total shareholder returns.

In 2009 we saw improved cash flow from the higher profitability we enjoyed. In addition to the maintenance of our dividend, we used approximately \$4 million to repurchase common shares under our Normal Course Issuer Bid.

We appreciate the support and confidence of our shareholders. We believe that we can build on the success of 2009 in the years to come and look forward to seeing our shareholders at the Annual General and Special Meeting in Waterloo at 4:00 PM on July 7, 2009.



Sincerely
Philip C. Deck
Chairman & CEO

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") comments on the consolidated operations, performance and financial condition of MKS Inc. ("MKS" or the "Company") for the years ended April 30, 2009 ("FY09"), April 30, 2008 ("FY08") and April 30, 2007 ("FY07").

This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for FY09, FY08 and FY07 and the related notes. All currency amounts in this MD&A are stated in US dollars, unless otherwise indicated.

The financial information set forth in this MD&A has been derived from the audited consolidated financial statements of MKS prepared in accordance with United States generally accepted accounting principles ("US GAAP").

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

The date of this MD&A is June 1, 2009.

Forward Looking Statements

Except for the historical information contained herein, the discussion in this MD&A contains certain forward-looking statements that involve risks and uncertainties, such as statements regarding the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify such forward-looking statements. Such statements reflect the Company's views as at the date of this MD&A with respect to future events and are subject to certain risks, uncertainties and assumptions.

Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, but are not limited to, development of the ALM market, economic uncertainty, currency exchange rate fluctuations, fluctuations in quarterly results, intense competition, management of growth, rapid technological change, dependence on and retention of management and key employees, importance of maintenance contracts, international sales, dependence on a limited number of products, acquisitions, distribution channels in the interoperability market, potential for undetected errors in software, protection of intellectual property, reliance on third party relationships, use of open source software, litigation, concentration of ownership and market maturity in the interoperability market. See the "Risk Factors" section of this MD&A for more detailed information regarding these risks and uncertainties. Although the Company believes the expectations represented by such forward-looking statements are reasonable, there can be no assurance that those expectations will prove to be correct. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.

About the Company

MKS evaluates operational performance based on two operating segments: application lifecycle management ("ALM") and systems administration ("Interoperability" or "IO"). The segments are managed separately because each requires unique selling and marketing strategies and is exposed to different economic environments.

The Company's primary focus is the ALM segment. ALM encompasses the management of all the activities and the artifacts that relate to or impact custom or packaged software applications, including Requirements Management, System Design, Software Configuration Management, Change Management, Test Management and Release Management and the integration and control over a diverse array of software design, modeling and testing tools.

MKS Integrity™ is an enterprise ALM platform that provides consistent capabilities across all disciplines of the application lifecycle by defining hierarchies, relationships and change management processes for numerous user defined application artifacts. Unlike other ALM offerings that have been assembled by acquisition, MKS Integrity is a unified platform providing enterprise class scalability and multi-platform capability to support large-scale software re-use initiatives, workflow-based collaboration, rich mining of application activity data to deliver higher team productivity, visibility and compliance for software engineering and IT organizations.

MKS focuses its marketing and sales efforts on enterprises with large software development organizations. The Company targets companies that deliver software within their products such as software vendors and electronics, automotive and defense companies, systems integration companies, and the software development departments of major corporations that use internally developed applications to run their businesses, such as banks and pharmaceutical and telecommunications companies.

The MKS Interoperability segment encompasses products, namely MKS Toolkit®, which address the issues surrounding UNIX-Windows operating system co-existence, cross-platform development, application migration, systems administration and network management.

Performance Highlights

Overall, in FY09 total revenue decreased 5% from FY08, compared with an increase of 27% in FY08 from FY07. License revenue decreased 25% in FY09 from FY08, which resulted in the decline in total revenue. Increases in maintenance and services revenue of 8% and 25%, respectively, for those same periods, partially offset the decline in license revenue. License, maintenance and service revenue increased 34%, 17% and 36%, respectively in FY08 compared to FY07.

Revenue in FY09 was primarily generated from both the North American and European markets, the Company's principal geographic segments. The volume of license and service transactions over \$100,000 in FY09, excluding maintenance renewals, increased over FY08 as the Company completed 70 transactions in FY09 over \$100,000, compared with 62 transactions in FY08 and 50 in FY07. Of the transactions over \$100,000, there were 9 transactions over \$500,000 in FY09, compared with 6 in FY08 and 4 in FY07.

ALM license revenue decreased in FY09 compared to FY08 due to fewer key licensing transactions during FY09. In FY09, The Company earned substantial new mandates from major customers who made decisions to either standardize on, or undertake major implementations, of MKS Integrity. Many of these customers are under severe economic strain, and these new mandates resulted in less immediate license revenue, on average, than the Company has experienced in the past. The Company expects that as economic conditions improve, and the capital budgets of customers become less constrained, the mandates that the Company won in fiscal 2009 will result in additional future license revenue.

In FY08, the Company experienced several large licensing transactions, including one transaction representing approximately \$5 million of license revenue. These licensing transactions in FY08 accounted for the increase in license revenue from FY08 to FY07. There were no license transactions above \$1 million in 2009.

ALM service revenue increased in FY09 as a result of follow on service engagements relating to the licensing activity in FY08 and the increased assistance provided to customers in their increasingly complex planning and rollout initiatives. ALM maintenance revenue continued its steady growth trend from FY09 and FY08 as the Company continued to maintain its high maintenance renewal rates throughout its customer base.

In spite of the decline in overall revenue, operating margin increased in FY09, resulting in a \$0.7 million improvement in operating income to \$4.2 million for the year compared to \$3.5 million in FY08. Total operating costs for FY09 declined \$3.4 million compared to FY08. Costs were lower in FY09 compared with FY08 as the Company benefited from the weakening Canadian dollar compared with the United States dollar as well as lower variable sales compensation, consistent with the lower licensing activity. Costs increased in cost of product and support and services and the Company continues to expand its resources to meet the needs of its growing customer base and to deliver services required by its customers. The decline in the Company's FY09 costs was partially due to fluctuations in the exchange rates among the main currencies in which the Company operates, namely the Canadian dollar, US dollar, Pound Sterling and Euro. These exchange rate movements had the effect of decreasing costs in the FY09, compared with FY08, by \$1.3 million, compared with an increase of \$1.1 million from FY07 to FY08.

The Company has successfully maintained profits in its Interoperability business segment relative to the segment's revenues over the past three fiscal years. Operating income declined slightly from \$1.9 million in FY08 to \$1.7 million in FY09 and was \$2.3 million in FY07. In the Interoperability segment, the Company utilizes both direct and indirect channels of distribution to reach a diverse customer base ranging from large multinational companies to individual developers. The Company continues to conduct research and development in the IO segment to provide its large customer base with up to date features and functionality. However, markets for the Company's Interoperability products are mature and well developed and the Company believes that opportunities to develop new customers for this product line are limited. The Company expects to experience a continuing decline in license and maintenance revenue in this segment as the technology and market for these products continues to mature.

Income tax expense has remained minimal in FY07 through FY09, as the Company has utilized tax losses to reduce tax costs. In the fourth quarter of FY09, the Company recorded an income tax recovery of \$1.6 million. This recovery resulted from a reduction in the valuation allowance on the Company's deferred tax asset in certain jurisdictions where it expects to receive a benefit related to historical tax losses. During FY09, the Company recorded a deferred tax provision of \$1.5 million related to the income earned in those jurisdictions where assets have been recognized by the Company.

As a result of higher operating income and the net recovery of income taxes in FY09, the Company reported a net income of \$4.3 million in FY09 compared with \$3.8 million in FY08 and net a net loss of \$2.8 million in FY07.

Supplementary Financial Information

Selected Unaudited Consolidated Quarterly Financial Information

(in thousands, except per share amounts)

The following table presents selected unaudited consolidated quarterly financial information for each of the eight quarters ended April 30, 2009. The Company's quarterly operating results have historically fluctuated significantly and may continue to fluctuate significantly in the future as a result of a variety of factors. Therefore, the Company believes that its past operating results and period-to-period comparisons should not be relied upon as an indication of the Company's future performance. See "Risk Factors" below.

	Three Months Ended							
	Jul 31	Oct 31	Jan 31	Apr 30	Jul 31	Oct 31	Jan 31	Apr 30
	2007	2007	2008	2008	2008	2008	2009	2009
License revenue	\$ 5,802	\$ 5,128	\$ 4,120	\$ 12,128	\$ 6,156	\$ 6,425	\$ 3,702	\$ 3,989
Maintenance revenue	6,205	6,402	6,584	6,646	7,035	7,051	6,980	6,897
Service revenue	1,600	2,098	2,086	2,386	2,174	2,792	2,521	2,696
Total revenue	\$ 13,607	\$ 13,628	\$ 12,790	\$ 21,160	\$ 15,365	\$ 16,268	\$ 13,203	\$ 13,582
Income (loss) from operations	\$ (326)	\$ 487	\$ (806)	\$ 4,123	\$ 1,149	\$ 1,958	\$ 418	\$ 627
Net income (loss)	\$ (320)	\$ 197	\$ (754)	\$ 4,717	\$ 619	\$ 1,353	\$ 325	\$ 1,989
- per share, basic	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ 0.09	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.04
- per share, diluted	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ 0.09	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.03
Total assets	\$ 34,378	\$ 32,965	\$ 33,393	\$ 42,264	\$ 36,888	\$ 33,851	\$ 36,284	\$ 37,020
Cash dividends per share	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02

Key factors which account for the fluctuations in quarterly results include the variability in the Company's licensing revenue, the pace at which the Company's sales force is expanded and the impact of currency movements against the US dollar. As the timing of larger license transactions changes from quarter to quarter, the impact on license revenue is significant. The current economic environment is a significant factor affecting the Company's license revenue on a quarterly basis.

In the three months ended April 30, 2008, the Company completed a \$5 million licensing transaction in its ALM segment. In addition, the movement of the Canadian dollar against the US dollar has a direct impact on the Company's financial results. The Company's main development and administrative costs are based in Canadian dollars. As a result, as the Canadian dollar strengthens against the US dollar, the Company's cost base is increased.

As at April 30, 2009, 49,890,000 common shares of the Company and options to purchase 6,448,000 common shares of the Company were outstanding.

Selected Annual Financial Information

(in thousands, except per share amounts)

The following table below provides selected consolidated financial information for the three most recently completed financial years:

For the year ended April 30	2009	2008	2007
Total revenue	\$ 58,418	\$ 61,185	\$ 48,324
Operating income (loss)	4,152	3,478	(3,312)
Net income (loss)	4,286	3,840	(2,843)
Per share, basic	\$ 0.09	\$ 0.08	\$ (0.06)
Per share, diluted	\$ 0.08	\$ 0.08	\$ (0.06)
Total assets	37,020	42,264	35,506
Total long term liabilities	-	-	-
Cash dividends paid, per share	\$ 0.08	\$ 0.08	\$ 0.08

Total revenue decreased in FY09 compared with FY08 by 5% and increased by 27% in FY08 compared with FY07. In FY09, strong ALM segment services and maintenance increases partially offset the lower licensing activity. In FY08, strong ALM segment licensing activity as well as continued growth in ALM segment maintenance and service revenue from levels in FY07 provided the revenue growth. The key factor that drove the growth rate in FY08 was an increase in the volume of new licensing of the Company's products to both new and existing customers. New licensing transactions generate ongoing incremental maintenance revenue as well as the potential for new service engagements. During FY09, licensing transactions from the ALM segment in FY08 drove the increased services and maintenance revenue.

Operating income increased in FY09 compared to FY08 as a result of decreased costs in the ALM segment due to favourable changes in the currency as well as lower licensing volume. Operating income increased in FY08 compared to FY07 as a result of increased revenue generated from licensing transactions in the ALM segment. Key factors in which contributed to the increase in operating costs in FY07 included an investment in increased marketing expenditures and research and development expenditures as well as the strengthening of the Canadian dollar, Pound Sterling and Euro against the US dollar over the period.

Net income in FY09 and FY08 included an income tax recovery of \$1.6 million and \$1.4 million, respectively, as the Company realized the future benefit of a portion of its tax assets not previously recognized in the financial statements.

These factors are discussed in more detail throughout this MD&A.

Financial Results Analysis

This section discusses the consolidated financial results of the Company and each of its operating segments for FY09, FY08 and FY07. Revenue and operating income from operations are analyzed on a segmented basis.

Revenue

(in thousands of dollars, except percentages)

For the year ended April 30	2009	2008	% Change 2008 to 2009	2007
ALM segment:				
License revenue	\$ 15,627	\$ 22,857	-32%	\$ 15,248
Maintenance revenue	25,197	22,726	11%	18,934
Service revenue	10,183	8,170	25%	5,988
	51,007	53,753	-5%	40,170
Interoperability segment:				
License revenue	4,645	4,321	7%	4,986
Maintenance revenue	2,766	3,111	-11%	3,158
Service revenue	-	-	0%	10
	7,411	7,432	-0%	8,154
Total revenue	\$ 58,418	\$ 61,185	-5%	\$ 48,324

ALM Segment

License revenue is generated through the sale of perpetual licenses and is driven primarily by licensing of the Company's main ALM product, MKS Integrity, to both new and existing customers. The increased acceptance of MKS Integrity as an enterprise ALM platform is enabling the Company to compete for larger and more numerous installations than in the past. The increased breadth of the Company's product offering, which impacts multiple departments and various functional areas in the customer's environment, has increased the value and size of implementations in the Company's customer base. Customers continue to deploy licenses previously purchased and to plan future deployments, requiring incremental purchases in future periods. In addition, due to the maturation of the Company's existing sales force, productivity from the sales force has been increasing over the past two fiscal years, which has positively impacted the Company's revenue and operating income.

License revenue declined 32% in FY09 compared with FY08. This was primarily attributable to lower licensing levels from both the Company's existing and new customers. During FY09, the Company was able to increase its customer base with several key wins. As a result of current economic pressures and tightening customer budgets, initial deployment of those wins has been smaller than historically realized. License revenue increased 50% in FY08 compared with FY07, which was primarily attributable to one transaction in FY08, which accounted for approximately \$5 million of license revenue. There was no comparable transaction in FY09 or FY07.

Maintenance revenue consists of maintenance contracts sold with new products for a period that is generally twelve months, as well as renewal maintenance contracts to existing customers for the second and subsequent maintenance periods. Maintenance revenue growth in FY09 compared with FY08, as well as in FY08 compared with FY07, was primarily attributable to the maintenance component of new transactions and the extension of maintenance contracts by existing customers for additional maintenance periods in order to gain access to product upgrades and MKS support services. The Company continued to consistently experience a high maintenance contract renewal rate in FY09, with over 90% of the total value of expiring annual enterprise ALM customer maintenance contracts being renewed. The Company experiences a higher renewal rate on installations of its products with its Global 1000 accounts compared to smaller accounts.

Service revenue is generated by providing process consulting, installation services, user training, conversion services and other product feature/configuration consulting to ensure successful deployment of the Company's products to meet its customers' needs. Services are delivered on a regional basis by the Company's employees and services partners, and are generally priced based on a daily rate. The increase in service revenue in FY09 and FY08 was driven by a strong backlog of services sold in prior licensing transactions. As the Company has experienced larger implementations with its customers, the complexity of the projects has increased as well as their scope and timeframes. These longer, more complex services arrangements with the Company's key customers has assisted in the planning and deployment of previously licensed software, which the Company believes will accelerate the timeline for future follow on purchases from the customers. The Company continues to grow its service revenue through key engagements with customers in all of its geographic segments and increase its penetration into key accounts. In addition, the Company's customers are increasingly willing to enter into services agreements for process assessments prior to licensing. This is a favourable trend for the Company in terms of service revenue and typically leads to more successful future deployment of its software.

Interoperability Segment

The MKS Interoperability segment's product, MKS Toolkit[®], addresses the issues surrounding UNIX-Windows operating system co-existence, cross-platform development, application migration, systems administration and network management. The markets for the Company's Interoperability products are mature and well developed and the Company believes that opportunities to develop new customers for this product line are limited. The Interoperability segment has been in long-term decline due to (i) a continuing shift by the market to port UNIX applications to the Linux operating system instead of Windows NT, thus not utilizing the Company's MKS Toolkit products to port from UNIX to Windows NT, and (ii) increased levels of competition in this segment from both freeware and other low-cost alternatives which remain prevalent in the UNIX to Windows interoperability market. While this segment is not viewed as strategic to the Company, the segment consistently generates profits and cash flow to fund the ALM segment of the MKS business. The Interoperability segment experienced a slight decline in revenue from FY09 to FY08, and a decline in revenue in FY08 of 9% compared to FY07.

License revenue increased from \$4.3 million in FY08 to \$4.6 million in FY09. This compares with a decline from \$5.0 million in FY07. The general maturity of the segment has resulted in stability of licensing fees, with competitive and market conditions resulting in the general decline of license revenue. Over the long-term and consistent with the maturing of the technology and the market, the Company expects a continuing decline in license revenue from its Interoperability segment.

Maintenance revenue declined by 11% in FY09 compared to FY08 and declined 1% in FY08 compared to FY07. In each case, the decline was attributable to a reduction in maintenance renewals over the previous fiscal year. Over time, customers re-write their software code and during that process, eliminate the reliance on the Interoperability segment's products to port the application from one operating system to another. During FY09, this was more prevalent than in the past. In line with the Company's expectations, a decline in the maintenance base is expected to continue to occur. The Company's strong support organization and relevant updates it provides to its products help maintain existing maintenance customers, and reduce the rate of decline in the future.

Service revenue for the Interoperability segment is minimal. The Interoperability products generally do not require consulting on implementation, and the Company does not expect to consistently generate service revenue on a quarter-by-quarter basis.

Operating Income

(in thousands of dollars)

For the year ended April 30	2009	2008	% Change 2008 to 2009	2007
Revenue:				
ALM segment	\$ 51,007	\$ 53,753	-5%	\$ 40,170
Interoperability segment	7,411	7,432	-0%	8,154
	<u>58,418</u>	<u>61,185</u>	<u>-5%</u>	<u>48,324</u>
Operating expenses:				
ALM segment	48,586	52,191	-7%	45,827
Interoperability segment	5,680	5,516	3%	5,809
	<u>54,266</u>	<u>57,707</u>	<u>-6%</u>	<u>51,636</u>
Operating income (loss):				
ALM segment	2,421	1,562	55%	(5,657)
Interoperability segment	1,731	1,916	-10%	2,345
	<u>\$ 4,152</u>	<u>\$ 3,478</u>	<u>19%</u>	<u>\$ (3,312)</u>

The consolidated income from operations was \$4.2 million in FY09 compared with \$3.5 million in FY08 and a loss from operations of \$3.3 million in FY07. Operating expenses were \$54.3 million in FY09 compared to \$57.7 million in FY08, a 6% decrease, and were \$51.6 million in FY07. In FY09, costs decreased in the ALM segment mainly due to lower licensing activity, which led to lower variable compensation costs, as well as more favourable currency rate trends during the fiscal year. In FY08, costs increased in the ALM segment as resources were invested to generate increased sales during the year as well as to develop the market and further develop the Company's ALM products in the future. The emphasis of the Company's ALM spending increases in FY08 was on sales and market development, service delivery resources and research and development activity, as the Company executed its strategy of building a market leading enterprise ALM business. The impact of currency movements against the US dollar during FY09 versus FY08 accounted for a reduction in costs of approximately \$1.3 million, compared with a cost increase in FY08 versus FY07 of approximately \$3.2 million.

The impact of the weakening Canadian dollar against the US dollar during FY09 versus FY08 accounted for approximately \$0.6 million of the cost decrease. This cost decrease affected the departmental areas containing a significant number of the Company's Canadian employees, namely research and development and general and administrative costs. In addition, the Company recorded a foreign exchange loss on balance sheet items of \$0.4 million in FY09 compared with a foreign exchange gain of \$0.5 million in FY08.

The following table sets forth, for the periods indicated, in thousands of dollars, except exchange rate information, (i) the Company's operating costs incurred in Canadian dollars and as a percentage of its total operating costs, (ii) the average exchange rate for one Canadian dollar expressed in US dollars based upon the noon buying rates provided by the Bank of Canada, and (iii) the effective exchange rate between the US dollars and Canadian dollars, after giving effect to hedging activities undertaken by the Company.

	FY08 Q1	FY08 Q2	FY08 Q3	FY08 Q4	FY09 Q1	FY09 Q2	FY09 Q3	FY09 Q4
Quarterly Canadian dollar costs	\$ 4,606	\$ 4,756	\$ 4,905	\$ 5,744	\$ 5,644	\$ 5,189	\$ 5,180	\$ 5,245
Percentage of total costs	31%	35%	36%	34%	39%	33%	33%	37%
Average exchange rate	\$ 0.91	\$ 0.97	\$ 1.01	\$ 1.00	\$ 0.99	\$ 0.92	\$ 0.82	\$ 0.80
Effective exchange rate after hedging activities	\$ 0.91	\$ 0.97	\$ 1.01	\$ 1.00	\$ 0.99	\$ 0.96	\$ 0.93	\$ 0.91

In order to mitigate the fluctuations between the value of Canadian and US dollars, the Company initiated a currency hedging program in the second quarter of fiscal 2009. The program resulted in Canadian dollar operating costs being recorded at an average rate of \$0.91 for the fourth quarter of fiscal 2009. The Company has also entered into hedging transactions to buy Canadian dollars on a schedule consistent with the Company's expected requirements.

The following table sets forth, for the periods indicated, in thousands of dollars, except exchange rate information, information concerning the total amount of Canadian dollars subject to hedging transactions entered into by the Company as of the date of this MD&A and the average exchange rate for one Canadian dollar expressed in US dollars.

	FY10 Q1	FY10 Q2	FY10 Q3	FY10 Q4	FY11 Q1
Quarterly Canadian dollars hedged	\$ 3,949	\$ 3,624	\$ 3,787	\$ 3,800	\$ 3,787
Average hedged rate for the period	\$ 0.94	\$ 0.83	\$ 0.79	\$ 0.80	\$ 0.80

Cost of Product and Support

Cost of product and support consists of costs incurred to deliver the Company's product to customers, including royalty costs paid to third parties for technology embedded in the product, and to provide telephone support for customers under maintenance contracts. On a Company-wide basis, cost of product and support increased 11% in FY09 compared to FY08 and 20% in FY08 compared to FY07. Royalty costs paid to third parties continued to decrease in FY09 from FY08 as the Company continued to replace third party software in its product with internally developed alternatives. The increases in cost of product and support costs were driven by increased support personnel costs, as new staff was added to support the Company's growing maintenance base. Average support headcount for the fiscal year increased from 30 in FY07 to 35 in FY08 and further increased to 45 in FY09.

Cost of Service

Cost of service increased 13% from \$6.3 million in FY08 compared with \$7.1 million in FY09. Services margins increased to 30% in FY09 compared with 23% in FY08. The Company was involved with several long-term service engagements resulting from FY08 licensing activity, which increased the utilization and margin obtained on those services. Cost increases in FY09 were attributable to the increased use of resources utilized to deliver the services, both through added staff and through an increase in solution provider partners used to deliver services to the Company's customers, resulting in a \$0.8 million increase compared to FY08. Average service headcount increased by four from FY08 to FY09.

Cost of service for FY08 increased 29% from FY07. The Company achieved a 23% margin on service revenue in FY08 compared with a 19% margin in FY07. Cost increases in FY08 were attributable to the increased use of solution provider partners used to deliver services to the Company's customers, resulting in a \$1.2 million increase compared to FY07. Average service headcount remained unchanged from FY07 to FY08.

Sales and Marketing

Sales and marketing costs declined \$3.2 million, or 13%, in FY09 compared with FY08 through a combination of lower headcount, lower variable pay and reduced marketing spend in the year. Average headcount decreased by eight during the year. Lower variable pay costs, consistent with the lower licensing volumes in FY09 compared with FY08, accounted for \$1.1 million of the decrease. Marketing spending declined \$0.6 million from FY08 to FY09.

Sales and marketing costs increased 8% in FY08 compared with FY07. Average sales and marketing staff decreased by 14 during the year. Lower salary costs were more than offset by higher variable pay costs, consistent with the higher licensing volumes in FY08 compared with FY07. Increased productivity from the Company's more tenured sales force contributed to the higher licensing per sales representative. Marketing spending remained flat from FY07 to FY08.

Research and Development

Research and development expenses decreased 10% from \$13.9 million in FY08 to \$12.4 million in FY09. Since the majority of the Company's development takes place in Canada, the effect of the weakening Canadian dollar accounted for \$0.3 million of the decrease in costs. Also included in the FY08 costs were one-time severance costs totaling \$0.6 million. Headcount remained constant from FY09 to FY08. As the Company continues to expand its customer base, increased spending in the ALM segment on research and development is essential to maintain and further expand on its products. Research and development costs for the IO segment remained constant from FY09 to FY08.

Research and development expenses increased 11% from \$12.6 million in FY07 to \$13.9 million in FY08. The effect of the strengthening Canadian dollar accounted for \$0.8 million of the increase in costs. Also included in the increase in costs were one-time severance costs totaling \$0.6 million. Headcount remained constant from FY07 to FY08.

General and Administrative

General and administrative expenses decreased \$1.3 million, or 14%, in FY09 compared with FY08. Of the \$1.3 million decrease, \$0.5 million related to lower variable pay costs and \$0.2 million was due to the lower Canadian dollar versus the US dollar in FY09, when compared with FY08. As a percentage of total revenue, general and administrative costs were 13% in FY09, compared with 14% in FY08 as the Company continued to leverage its general and administrative base. Headcount for the Company's general and administrative organization remained relatively consistent from FY09 to FY08.

General and administrative expenses increased \$1.2 million, or 17%, in FY08 compared with FY07. Costs increased \$0.7 million due to the higher Canadian dollar versus the US dollar in FY08, when compared with FY07. The remainder of the increase resulted from higher variable pay costs in FY08, in line with the Company's improved financial results in FY08. As a percentage of total revenue, general and administrative costs were 14% in FY08, compared with 15% in FY07. Headcount for the Company's general and administrative organization remained unchanged from FY07 to FY08.

Foreign exchange

Due to significant changes in currency exchange rates during the fiscal year, a foreign exchange loss of \$0.4 million was incurred in FY09 compared to a foreign exchange gain of \$0.5 million in FY08. The foreign exchange gains and losses in FY08 and FY09 related to the conversion of balance sheet items to the period end exchange rates. For FY07, the Company realized a foreign exchange gain of \$0.2 million.

Interest Income

Interest was generated from short-term investment grade interest-bearing securities. Low short-term interest rates in FY09 and FY08 resulted in lower overall interest income.

Income Taxes

In FY09, the Company recorded an income tax recovery for accounting purposes of \$1.6 million. This recovery resulted from the Company's regular quarterly analysis of its valuation allowance during the fourth quarter of FY09. The valuation allowance was reduced on the Company's deferred tax asset in FY09, increasing the net asset that will be utilized to offset taxable income, mainly in Canada and the United States in the future. This was offset by the utilization of opening deferred tax asset balances in FY09 of \$1.5 million.

Realization of the net deferred tax asset is dependent on generating sufficient future taxable income on a jurisdiction-by-jurisdiction basis. Although realization is not assured, the Company believes it is more likely than not that a portion of the deferred tax asset will be realized, and as a result, the appropriate recovery has been recorded. As factors change in the future, this estimate could change in the near term as estimated future taxable income in each legal entity changes.

Liquidity and Capital Resources

The Company's cash balance as at April 30, 2009 increased by \$4.2 million to \$17.1 million from \$12.9 million at April 30, 2008 due to significant collection from accounts receivable during FY09.

Operating Activities

The Company generated \$12.3 million of cash from operating activities in FY09 compared with \$2.4 million in FY08. Days sales outstanding in accounts receivable at April 30, 2009 were 50 days compared to 69 days at April 30, 2008. The decrease in days sales outstanding was primarily attributable to the collection of the high volume of sales transactions completed in the last quarter of FY08. Deferred revenue increased by \$0.7 million at April 30, 2009 compared to April 30, 2008 due to the timing of maintenance renewals and the growing end user base of the Company. As the Company expects to renew the majority of the maintenance contracts in the last two quarters of each fiscal year, the Company believes that the usual trend of higher cash balances in the third and fourth quarters will continue.

Investing Activities

Purchases of fixed assets amounted to \$1.3 million in FY09 compared with \$1.2 million in FY08. Capital spending relates to leasehold improvements and computer hardware and software acquisitions in order to replace aging equipment, to provide enhanced security and productivity and to support growth in operations.

Financing Activities

The Company maintains a policy to pay quarterly dividends and declared and paid quarterly dividends on its common shares of \$0.02 per share each quarter in FY09 amounting to total dividends of \$4.0 million being paid during the year. The Company's intention is to pay a quarterly dividend, so long as the payment of the dividend does not impair the Company's financial position.

On June 26, 2008, MKS instituted a Normal Course Issuer Bid ("NCIB"). Under the terms of the NCIB, the Company is permitted to purchase up to a maximum of 3.8 million of its common shares representing 10% of the total public float outstanding as at May 31, 2008 on the Toronto Stock Exchange ("TSX").

Purchases under the NCIB were permitted to commence on June 26, 2008 and will terminate on the earlier of June 25, 2009, the date on which the Company completes its purchases pursuant to the notice of intention to make an NCIB and the date of notice by the Company of termination of the bid.

Common shares purchased under the NCIB have been cancelled. Purchase and payment for the shares will be made by the Company in accordance with the by-laws and rules of the TSX and the price that the Company will pay for any shares acquired by it will be at the market price of the shares at the time of acquisition. The Company may make purchases of shares under the NCIB from time to time in the open market in accordance with the rules and policies of the TSX, and when management believes that the market price of the Company's shares is attractive and that the purchase of shares would be an appropriate use of corporate funds in light of potential benefits to remaining shareholders.

During FY09, the Company purchased 2.2 million shares under the NCIB, at an average cost of Cdn\$1.70 per share, for a total cost, including commissions, of \$3.6 million.

A copy of the notice of the Company's intention to make the NCIB as filed with the TSX can be obtained, without charge, by contacting the Company at 410 Albert Street, Waterloo, Ontario N2L 3V3 Attention: Corporate Secretary or by calling 519-884-2251.

The Company received \$0.7 million during FY09 from the issuance of common shares upon the exercise of stock options under the Company's employee stock option plans.

Capital Resources

The Company's primary sources of liquidity are its cash generated by operations and working capital. The Company had cash and cash equivalents totaling \$17.1 million as at April 30, 2009, compared with \$12.9 million at April 30, 2008.

The Company continues to perform relatively well under the current economic climate. In FY09, the Company had higher profitability and cash flow compared to the prior year. Maintenance contracts continue to provide positive cash flow and have not been affected by the current global economic climate to date. The Company's cash balance grew, consistent with its normal seasonal cycle, and the Company believes that it is well positioned to finance its working capital and capital expenditure requirements for the next twelve months. If the Company's spending plans change, the Company may find it necessary to seek additional sources of equity or debt financing and/or reduce or eliminate its quarterly dividend and/or NCIB purchases to support its capital needs. If the Company does need to seek additional financing, there is no assurance that this additional financing will be available in amounts or on terms favourable to the Company, or at all, and not dilutive to the Company's shareholders.

The key factors that could negatively impact the liquidity of the Company include: the profitability of the Company; fluctuation in exchange rates, particularly the weakening of the US dollar compared with the Canadian dollar as the Company's financial results are reported in US dollars while the Company incurs approximately one-third of its expenses in Canadian dollars; fluctuations in the price of the Company's common shares below the current market price of those shares; the long sales cycles associated with selling to Global 1000 companies, which could lead to fluctuating quarterly results; continued high levels of renewal of annual maintenance contracts with installed base customers; and the extent and duration of the current economic downturn in the North American economy where the Company derives approximately sixty to seventy percent of its revenue as that impacts general levels of capital procurement by large corporations. See "Risk Factors".

The Company may make strategic investments in related products or acquire customer bases. The Company may utilize a portion of its cash balances or issue additional share capital or debt to finance such investments.

Contractual Obligations

The following table provides a summary of the Company's contractual obligations for the periods indicated.

(tabular amounts in thousands)	Fiscal year ended April 30						
	2010	2011	2012	2013	2014	Thereafter	Total
Operating lease obligations ¹	\$ 1,650	\$ 1,100	\$ 392	\$ 284	\$ 189	\$ 199	\$ 3,814
Purchase obligations ²	600	16	-	-	-	-	616
	\$ 2,250	\$ 1,116	\$ 392	\$ 284	\$ 189	\$ 199	\$ 4,430

¹ The Company is also responsible for certain common area costs at its various leased premises.

² Represents commitments under certain contractual arrangements to make future payments for goods and services to be used in the normal course of business.

Outlook for Fiscal 2010

MKS is committed to profitable organic growth in its primary operating segment, ALM. The Company strives to maintain a balance between increasing current shareholder returns and funding research and sales force investments for long-term growth.

The Company also expects a continued decline in the Interoperability business of approximately 10 percent annually.

Income tax expense is recorded in the Company's financial statements going forward at the prevailing tax rate in the jurisdiction where the income was generated to the extent a deferred tax asset has been recorded in that jurisdiction. Such rate may be higher than the average rate the Company expects to pay in the future across all jurisdictions. This will be subject to an ongoing quarterly assessment of the valuation allowance by jurisdiction, which may give rise to further increases or decreases to the existing tax asset.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements such as special purpose or variable interest entities.

Significant Fourth Quarter Events

Total revenue in the fourth quarter of fiscal 2009 was \$13.6 million, down 36% from \$21.2 million in the fourth quarter of fiscal 2008. ALM license revenue decreased 74% to \$2.8 million from \$10.9 million for the same periods. Sales transactions over \$100,000 were 18 in the fourth quarter of FY09 (of which 2 transactions were over \$500,000) compared to 19 in the fourth quarter of FY08 (of which 5 transactions were over \$500,000).

Total operating expenses in the fourth quarter of FY09 were \$13.0 million, down from \$17.0 million in the fourth quarter of FY08 and up from \$12.8 million in the third quarter of FY09. The decrease in operating expenses from the fourth quarter of FY09 to FY08 related to decreased variable compensation costs as a result of lower licensing revenue. In addition, the Company's operating costs were impacted by an increase in the value of the US dollar relative to the Canadian dollar, Euro and Pound Sterling. This resulted in lower operating costs in the fourth quarter of FY09 compared with the fourth quarter of FY08 of \$0.8 million in addition to a foreign exchange gain of \$0.2 million.

During the fourth quarter of FY08, the Company generated \$0.8 million of cash, driven primarily by cash generated from operations of \$0.9 million.

Changes in Accounting Policies

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109.

Effective May 1, 2007, the Company adopted the provisions of FIN 48 and as a result of the implementation of FIN 48 there was no material impact to the Company's opening tax balances based on the tax positions taken.

Upon adoption of FIN48, the Company's policy is to include interest and penalties related to gross unrecognized tax benefits within the Company's income tax provision. Previously, interest paid related to income taxes was classified in the Company's financial statements as interest expense. As of April 30, 2009, the Company had accrued \$nil related to the payment of such interest and penalties.

Impact of New Accounting Pronouncements

In September 2006, the Financial Standards Board released FASB 157, "Fair Value Measurements", which is effective for fiscal years beginning after November 15, 2007. FASB 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The adoption of this pronouncement had no impact on the Company's financial statements.

Please see note 1 to the consolidated financial statements of the Company for the fiscal year ended April 30, 2009 for more information about the accounting policies of the Company.

Related Party Transactions

During FY09, the Company did not engage in any transactions involving related parties.

Controls and Procedures

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them and has been properly disclosed in the Company's annual regulatory filings. As of April 30, 2009, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as defined in NI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into consideration the Company's disclosure policy, a sub-certification process and the functioning of its Disclosure Committee.

Changes in internal controls over financial reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the fourth quarter of fiscal year 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Effectiveness of internal controls over financial reporting

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting (as defined in National Instrument 52-109) as of April 30, 2009, based on criteria established in "Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission".

Based on the assessment, the Company's CEO and CFO concluded that, as of April 30, 2009, the Company's internal control over financial reporting was effective.

Adoption of International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the "AcSB") announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods.

The Company is currently finalizing the IFRS changeover plan to achieve adoption of IFRS by May 1, 2011. Components of the plan include assessment of accounting policy choices and implementation decisions under IFRS, determining the impact of transition on information systems, internal control over financial reporting and disclosure controls and development of financial expertise in IFRS. The Company is completing the initial determination of differences in Canadian GAAP and IFRS and is currently assessing the impact on accounting policies and financial reporting.

Critical Accounting Policies and Estimates

The consolidated financial statements of the Company for the year ended April 30, 2009 have been prepared in accordance with US GAAP. Refer to note 1 in the annual consolidated financial statements for more information about the accounting policies applied in the preparation of the financial statements. The preparation of the financial statements in accordance with US GAAP requires management to make certain estimates, judgments and assumptions. Management continually evaluates these estimates, judgments and assumptions based on past experience and other relevant factors and believe them to be reasonable based upon information available to management at the time. Because this involves varying degrees of judgment and uncertainty, the amounts currently reported in the financial statements could, in the future, prove to be inaccurate. The accounting policies that reflect management's estimates that are more significant, judgments and assumptions and which management believes are the most critical to aid in fully understanding and evaluating the reported financial results include the following:

Revenue Recognition

The Company follows the provisions of Statement of Position (SOP) 97-2, "Software Revenue Recognition" and Staff Accounting Bulletin (SAB) 104, "Revenue Recognition in Financial Statements". Revenue is recognized from the sale of product and software licenses when delivery has occurred based on purchase orders, contracts or other documentary evidence, provided that collection of the resulting receivable is deemed probable by management. A provision is made for estimated sales returns and other insignificant vendor obligations. Revenue from post contract customer support is recognized ratably over the period that the customer support services are provided, which is generally one year. The amount of revenue allocated to this undelivered service is based on the vendor-specific objective evidence, is recorded as unearned, and the difference between the total contract fee and the amount recorded as unearned for the undelivered service is recognized as revenue related to delivered elements of the contract. Revenue from consulting, training and other services are recognized as services are performed. Deferred revenue represents unearned income associated with support agreements, software license revenue where significant vendor obligations remain and any other situations where payments are received in advance of revenue recognition.

Allowance for Doubtful Accounts

The Company maintains allowances for losses that could result from customers who do not make the required payments. The allowance is estimated based on the likelihood of recovering the accounts receivable. This is based on experience, taking into account current and expected collection trends.

If economic conditions worsen and customer losses increase, the allowance for doubtful accounts will increase by recording an additional expense to the statement of operations.

Impairment of Long-Lived Assets

Impairment of long-lived assets is assessed when events or changes in circumstances indicate that the carrying value of the asset may not be recovered.

In the case of goodwill, the Company no longer amortizes these assets as a result of an accounting change in fiscal 2002. However, goodwill impairment is assessed annually and when events or changes in circumstances indicate that goodwill might be impaired. This involves forecasting cash flows and market multiples used to value the assets. There is uncertainty in these estimates as the related cash flows are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends that may or may not materialize. Management uses its best efforts to forecast these amounts, but the actual amounts may vary from the estimated numbers. The impairment test is based on a projected discounted cash flow method. The Company believes that the estimate of future cash flows and fair value are reasonable. The assumptions used are consistent with internal budgets and reflect best estimates, but they have inherent uncertainties that management may not be able to control. As a result, the amounts reported for these items could be different if different assumptions were used, or if conditions change in the future.

Income Taxes

The Company believes that it has adequately provided for income taxes based on all of the information that is currently available. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities. As outlined in note 4 in the audited annual financial statements of the Company for the year ended April 30, 2009, a valuation reserve has been taken against a portion of the deferred tax assets of the Company, affecting the deferred tax assets recorded in the Company's financial statements.

The Company assesses the realization of these deferred tax assets quarterly by jurisdiction to determine whether an income tax valuation allowance is required. Based on available evidence, both positive and negative, it is determined whether it is more likely than not that all or a portion of the deferred tax assets will be realized on a jurisdiction-by-jurisdiction basis. The main factors that provide evidence about the ability to realize the net deferred tax asset include the following:

- the amount of, and trends related to, cumulative earnings or losses realized over the most recent 12 quarters;
- the current period net earnings (loss);

- future earnings projections as determined through the use of internal forecasts, including the impact of sales pipeline and existing and future maintenance contracts;
- the ability of the Company to carry forward tax losses and investment tax credits, including tax planning strategies to accelerate utilization of such assets;
- industry, business, or other circumstances that may adversely affect future operations; and
- the nature of the future income required to realize the Company's deferred tax assets.

In evaluating the positive and negative evidence, the weight that is assigned to each type of evidence is proportionate to the extent to which it can be objectively verified.

Any future change to the valuation allowance of the deferred tax asset would result in an income tax expense or recovery on the income statement in that future period. Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, the Company believes it is more likely than not that the net amount of the deferred tax asset will be realized. However, this estimate could change in the near term as estimated future taxable income in these certain legal entities changes. If the Company achieves a consistent and substantial level of profitability, the likelihood of the Company recording a future tax asset for some portion of the losses incurred in prior periods in one of its business jurisdictions will increase.

Stock Option Accounting

In accordance with SFAS 123(R), the Company estimates the fair value of its options for financial accounting purposes using the Black-Scholes model, which requires a number of subjective assumptions, including the expected life of the option, risk-free interest rate, dividend rate, forfeiture rate, future volatility of the price of our common shares and vesting period. The use of subjective assumptions could materially affect the fair value estimate. The Company estimates the volatility of the share price based on the historical trading information of the Company. The Company estimates the risk-free interest rate based on US Treasury rates with a yield equal to the expected life of the option. The Company bases the estimate of the expected life of the option based on historical Company data and the period for which the Company's options can be exercised. The Company assesses our forfeiture rate through an analysis of the turnover of the Company's employees since it commenced issuing options. The fair values of the options issued are being recognized as compensation expense over the applicable vesting period of four years on a straight-line basis.

Risk Factors

An investment in the securities of the Company involves risks. In addition to the other information contained in this MD&A, investors should carefully consider the risks described below before investing in the Company's securities. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company or that the Company currently believes are immaterial may also impair the business, results of operations, financial condition and liquidity of the Company.

Development of the ALM Market

The Company's strategy is to focus its sales and marketing efforts on the enterprise segment of the ALM market, a segment that the Company believes is comprised of large corporations that have a need to improve the productivity, processes and governance over internally developed software in large, dispersed IT departments. This segment of the market is currently estimated to be 10% of the total ALM market of approximately \$1 billion annually. The Company believes that the enterprise segment of the ALM market will grow faster than the traditional desktop segment that has been in decline in recent years due to high levels of competition.

As part of its strategy, over the past few quarters, MKS has released technology upgrades that extend the applicability of its platform across a significantly broader user base within its target enterprise customers. While this has generated significant interest among new large enterprise customers, increasing the value of the Company's solution and promising to establish much deeper adoption of the platform by them, it has added to the complexity of sales initiatives and lengthened sales cycles.

The Company has focused its ALM strategy on penetrating Global 1000 companies. This strategy has had, and may continue to have, an effect on the size and timing of license transactions and has increased and may continue to increase the Company's operating expenses (which may adversely affect the Company's operating income and net income if revenues do not increase proportionately) and the variability of the length of the sales cycle for the Company's enterprise ALM products.

There is no assurance that the Company's strategy will be successful or that the Company will develop a profitable business from selling its products and services into this segment of the market. The Company's future financial performance will depend in large part on the continued growth in the number of businesses adopting ALM products and the expansion of the products' use on a company-wide basis.

Economic Uncertainty

Many of the Company's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, increase exposure to losses from bad debts, or increase the cost and decrease the availability of financing.

Currency Exchange Rate Fluctuations

The Company's financial results are reported in US dollars. Recent changes in the exchange rate between the United States dollar and the Canadian dollar, Pound Sterling and the Euro have had the effect of decreasing revenues and operating income earned and decreasing reported expenses incurred in Europe, while increasing reported expenses incurred in Canada, as a significant portion of the Company's expenses are incurred in non-US currencies. Future fluctuations in those exchange rates could continue to have an effect on the Company's business and results of operations. In particular, a decline in the value of the United States dollar relative to the Canadian dollar could have a material adverse effect on the Company's results of operations and cash flows. The Company enters into foreign currency cash flow hedges to partially mitigate this risk.

A portion of the Company's sales outside of Canada and the United States are denominated in local currencies such as Pound Sterling and Euros. Appreciation in the value of the United States dollar in relation to foreign currencies may adversely affect the ability of the Company to compete with respect to sales to foreign customers, or compel the Company to maintain price levels in local currencies, which could reduce the realized price in US dollars, thereby negatively affecting revenue and profitability of foreign operations.

Fluctuation in Quarterly Results

The Company's quarterly revenues and operating results have fluctuated significantly in the past and are likely to fluctuate substantially from quarter to quarter in the future. Such fluctuations may result in volatility in the price of the Company's common shares ("Common Shares"). Quarterly revenues and operating results may fluctuate as a result of a variety of factors, including demand for the Company's products, the proportion of revenues attributable to license versus maintenance and service revenues, general economic conditions, the introduction of new products and product enhancements by the Company or its competitors, changes in the Company's pricing policies or those of its competitors, the geographical mix of the Company's sales, currency exchange rate fluctuations, unanticipated product discontinuation or deferrals by the Company's OEM customers, the fixed nature of a significant portion of the Company's operating expenses, particularly personnel, research and development and leases, and competitive conditions in the ALM and Interoperability markets. In the ALM segment of its business, the Company has focused its strategy on penetrating Global 1000 companies. This strategy has had, and may continue to have, an effect on the size and timing of license transactions and has increased and may continue to increase the Company's operating expenses (which may adversely affect the Company's operating income and net income if revenues do not increase proportionately) and the variability of the length of the sales cycle for the Company's enterprise ALM products.

The Company has historically operated with little license revenue backlog because its software products are generally shipped as orders are received. In addition, the Company has often recognized a substantial portion of its revenues in the last month of a quarter and often in the last week or days of that month. As a result, license fees in any quarter are substantially dependent on orders booked and shipped in the last month or last week of that quarter. Accordingly, a small variation in the timing of recognition of revenues for specific transactions can adversely and disproportionately affect the Company's business, results of operations, liquidity and financial condition because the Company establishes its expenditure levels on the basis of its expected future revenues and only a small portion of the Company's expenses varies with its revenues in the short term.

Due to all of the foregoing factors, the Company's revenues and operating results are difficult to predict and may not meet the expectations of market analysts and investors. In such an event, the trading price of the Common Shares would likely be materially adversely affected. Accordingly, the Company believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as indicative of future performance.

Intense Competition

The markets for the Company's products and services are intensely competitive and rapidly changing and a number of companies offer products and services similar to the Company's products and services and target the same customers as the Company. The Company believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and product enhancements, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts, product distribution, and product releases by competitors.

Many of the Company's competitors and potential competitors are substantially larger than the Company and have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution, and other resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Company.

In addition, the Company anticipates that the quality, functionality and breadth of the Company's competitors' product offerings will improve, and there can be no assurance that the Company will be able to compete effectively with such product offerings. The Company expects that additional competition will develop, both from existing businesses in the ALM and Interoperability markets and from new entrants. Moreover, as competition increases, the prices that the Company charges for its products may decline. In addition, the Company could be materially adversely affected if there were a significant movement towards the acceptance of open source solutions or other alternative technologies that compete with the Company's products. If the Company is not able to compete successfully, the Company's business, financial condition, liquidity and operating results could be materially adversely affected. The Company's most significant direct competitors in the ALM market include IBM Corporation, Serena Software Inc., Computer Associates International, Inc. and Borland Software Corporation, and in the Interoperability market include Microsoft Corporation and Red Hat, Inc.

Management of Growth

The Company has in the past experienced significant growth in its business, including an expansion in the Company's staff and customer base, the establishment of new distribution channels and the expansion of its product lines. Such growth placed, and may continue to place, a significant strain on the Company's management and operations. The Company's ability to manage growth effectively in the future will require it to further develop and improve its operational, financial and other internal systems, and to hire, train and manage employees. If the Company is unable to manage its growth effectively, the Company's business, results of operations, liquidity and financial condition could be materially and adversely affected.

Rapid Technological Change

The markets for the Company's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards could render the Company's existing products, and products currently under development, obsolete and unmarketable. The Company's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance. The development of such new products or enhanced versions of existing products entail significant technological risks. There can be no assurance that the Company will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements on a timely basis, or that the Company will not experience significant delays in development in the future, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on and Retention of Management and Key Employees

The Company's success will depend to a very significant extent on the performance and continued services of its senior management and certain other key employees, the loss of any of whom could have a material adverse effect upon the Company. In addition, the Company may continue to expand its management team in the future.

The Company believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense and the Company has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Company will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business. The Company does not have key person life insurance for any of its management team.

International Sales

The Company believes that its future revenue and operating results will depend in part upon its ability to increase sales in international markets outside North America. A portion of the Company's revenue is derived from sales outside of North America, primarily Europe. Recently, the Company has expanded its Asia-Pacific sales force in order to expand its operations in that region. International sales are subject to various risks, including exposure to currency fluctuations, political and economic instability, increased difficulty of administering business and the need to comply with a wide variety of international and domestic export laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including unexpected changes in Canadian or other governmental policies concerning the import and export of goods, services and technology and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products for foreign languages, longer accounts receivable payment cycles, limits on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. The financial stability of foreign markets could also affect the Company's international sales. There can be no assurance that such factors will not have a material adverse effect on revenues and expenses of the Company related to international sales and, consequently, the Company's business, results of operations, liquidity and financial condition. In addition, international income may be subject to taxation by more than one jurisdiction, which could also materially adversely affect the Company's results of operations.

Importance of Maintenance Contracts

Under the Company's annual maintenance contracts, customers are provided with telephone support to assist them in solving technical issues that arise from time to time in deploying and using the Company's software products and are supplied upgrades and patches for the Company's products for the duration of the maintenance period. The upgrades and patches provide new features and functionality as well as fixes to technical problems encountered by the customer installed base. The Company has historically experienced a high rate of renewal of customer contracts and relies on the cash flow generated from these renewals to fund operations and provide liquidity as the maintenance fees are paid at the beginning of the contract period. Deterioration in the renewal rate of maintenance contracts could materially adversely affect the business, results from operations, liquidity and financial condition of the Company.

Dependence on a Limited Number of Products

Substantially all of the Company's revenues are currently derived from a limited number of products and services offered by the Company in the ALM and Interoperability markets. Accordingly, the Company's future results of operations will depend, in part, on maintaining and increasing market acceptance of these products and services, as well as on the Company's ability to continue to enhance these products and services to meet the evolving needs of its customers. A reduction in demand or increase in competition in the market for ALM or Interoperability solutions, or a decline in sales of such products and related services, could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

Acquisitions

The Company may in the future further expand its operations or product offerings through the acquisition of additional businesses, products or technologies. There can be no assurances that the Company will be able to identify, acquire or profitably manage additional businesses without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs, events and legal liabilities; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which the Company has limited or no prior experience; and potential loss of key employees from either the Company's pre-existing business or the acquired organization. Some or all of these risks could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income.

Acquisitions could also use a substantial portion of the Company's available cash; may result in the Company incurring substantial debt, which may not be available on favorable terms and may adversely affect the liquidity of the Common Shares; may result in the Company assuming contingent liabilities and taking substantial charges in connection with the impairment of goodwill and amortization of other intangible assets; and may result in the issuance of equity securities that would dilute existing shareholders. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

Distribution Channels in the Interoperability Market

The Company employs a multi-channel sales and marketing strategy, using direct sales, OEMs, distributors and other resellers to address its global market for its Interoperability products. The Company expects that its Interoperability division will remain dependent upon these parties to distribute its products. In addition, the performance of OEMs, distributors and other resellers is outside the control of the Company, and the Company is unable to predict the extent to which these organizations will be successful in marketing and selling the Company's Interoperability products. The Company's failure to attract and retain sufficient direct sales personnel or to maintain its existing third-party relationships or to establish new relationships with OEMs, distributors and other resellers could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

Potential for Undetected Errors in Software

Software products, as complex as those offered by the Company, often encounter development delays and may contain undetected defects when introduced or when new versions are released. The Company has encountered delays and discovered previously undetected defects in the introduction of new products and product enhancements. There can be no assurance that the Company will not encounter product development delays in the future or that, despite testing by the Company, errors will not be found in new products or product enhancements after commencement of commercial shipments, resulting in damage to the Company's reputation, loss of revenue, loss of market share, delay in market acceptance or warranty claims, any of which could have a material adverse effect upon the Company's business, results of operations, liquidity and financial condition. This risk is amplified for the Company because a portion of its sales have been derived, and are expected in the future to be derived, from arrangements under which third parties embed the Company's products in their own products.

Any significant errors in the Company's products, or in the products of third parties which embed the Company's products, might discourage such third parties or other customers from utilizing the Company's products, which could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition. Although the Company generally attempts to limit by contract its exposure to incidental and consequential damages, if a court failed to enforce the liability limiting provisions of the Company's contracts for any reason, or if liabilities arose which were not effectively limited, the Company's business, results of operations, liquidity and financial condition could be materially and adversely affected.

Protection of Intellectual Property

The Company relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures and contractual provisions to protect its proprietary rights. Substantial portions of the Company's sales are derived from the licensing of the Company's products under shrink-wrap license agreements that are not signed by licensees and therefore may be unenforceable under the laws of certain jurisdictions. The Company generally enters into confidentiality agreements with its other licensees, employees and third-party distributors. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Company.

In addition, the laws of some foreign countries do not protect the Company's proprietary rights to as great an extent as do the laws of Canada or the United States. There can be no assurance that the Company's competitors will not independently develop similar technology or that the Company's means of protecting its proprietary rights will be adequate, and consequently the Company's business, results of operations, liquidity and financial condition could be materially adversely affected.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company with respect to current or future products. The Company expects that software product developers will increasingly be subject to infringement claims as the number of products and competitors in the ALM and Interoperability markets grow and the functionality of products in these markets overlaps. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, either of which could have a material adverse effect upon the Company's business, results of operations, liquidity and financial condition.

Reliance on Third Party Relationships

The Company has a number of third-party relationships that are significant to its marketing, sales and related support activities and product development efforts. The Company relies upon relational database management systems applications, and development tool vendors, software and hardware vendors to strengthen its product offerings through integration with industry-standard tools and utilities. The Company's intent in entering into these relationships is to keep pace with the technological and marketing developments of major software vendors, to acquire technical assistance for the Company's product development efforts and to leverage the Company's sales and marketing capabilities. There can be no assurance that these companies, many of which have significantly greater financial and marketing resources than the Company, will not develop or market software products that compete with the Company's products in the future or will not otherwise discontinue their relationships with or support of the Company. The failure of the Company to maintain its existing relationships, or to establish new relationships in the future, for any reason, could have a material adverse effect on the Company's business, results of operations, liquidity and financial condition.

Use of Open Source Software

The Company uses a variety of "open source" and "free-ware" software products in its products that are not maintained or supported by the original developers of such products. The Company has not conducted any independent investigations to determine if the sources of these third party software products have the rights necessary to permit the Company to use these products free of infringement claims by third parties. The Company could possibly be required to replace these third party software products with internally developed or commercially licensed components, which could delay the Company's product development plans or require it to pay licensing fees to third parties.

Litigation

The nature of the Company's business subjects the Company to regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of the Company's business. The results of these legal proceedings cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, depending partly on the results for that period, and a substantial judgment could have a material adverse impact on the Company's results from operations, liquidity and financial condition.

From time to time, the Company may be required to enforce its rights under contractual arrangements with its customers, including for non-payment of amounts owing. There can be no assurance that the Company will be successful in any such action or that the Company will not incur significant expenses in the course of the litigation or be required to devote a material portion of the Company's management resources to any such action.

Concentration of Ownership

The directors and executive officers of the Company as a group beneficially own, directly or indirectly, approximately 25% of the Common Shares outstanding. As a result, these shareholders, if acting together, could have significant influence over matters requiring the approval of the shareholders of the Company, including the election of the Company's Board of Directors and significant transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of the Company or otherwise cause the Company to take action that may not be in the best interests of all shareholders, either of which in turn could reduce the market price per share of the Common Shares.

Market Maturity in the Interoperability Market

The Company has, in the past, derived significant growth from its products and services targeted at the Interoperability market. The Interoperability market is now considered by the Company to be mature relative to the other markets that it addresses, and is expected to undergo limited growth. The Company's license revenue from the IO segment has declined in each of the past three fiscal years and the Company expects to experience a continuing decline in license revenue from this segment. The market for Interoperability products and services generally is subject to aggressive competition, resulting in increasing downward pressure on product licensing fees and gross margins. As a result of the relative maturity of the Interoperability market and increasing competition in that market, the Company may be unable to maintain or increase its current level of revenues from its Interoperability products and services, or to achieve the same level of gross margins as it has achieved on the licensing of Interoperability products in the past, each of which may have a material adverse impact on the Company's business, results of operations and financial condition.

Management's Report

To the Shareholders of MKS Inc.

The Company's management is responsible for preparing the accompanying consolidated financial statements in conformity with United States generally accepted accounting principles. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Significant accounting policies are described in note 1 to the consolidated financial statements. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the consolidated financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance, on a cost-effective basis, that assets are safeguarded and that transactions are executed and recorded in accordance with the Company's policies for doing business. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff, and by a continuous planning and monitoring program.

KPMG LLP has been engaged by the Company's shareholders to audit the consolidated financial statements. During the course of their audit, KPMG LLP gained a sufficient understanding of the Company's system of internal control to the extent necessary solely to plan the audit procedures to be performed in order to render their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. All the members of the Audit Committee are outside Directors.

The Audit Committee reviews the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited financial statements for publication. KPMG LLP has full and free access to the Audit Committee.

Management acknowledges its responsibility to provide financial information that is representative of the Company's operations, is consistent and reliable and is relevant for the informed evaluation of the Company's activities.



Philip Deck,
Chairman & Chief Executive Officer



Douglas Sawatzky,
Chief Financial Officer

Waterloo, Canada
June 1, 2009

Independent Auditors' Report

To the Shareholders of MKS Inc.

We have audited the accompanying consolidated balance sheets of MKS Inc. and subsidiaries as of April 30, 2009 and 2008, and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended April 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MKS Inc. and subsidiaries as of April 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2009 in conformity with U.S. generally accepted accounting principles.

On June 1, 2009, we reported separately to the shareholders of MKS Inc. on consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
June 1, 2009

MKS Inc.
Consolidated Balance Sheets
(US dollars, thousands)

<i>As at April 30</i>	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 17,098	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$89 (2008 – \$243)	7,404	16,054
Deferred income taxes (note 4)	1,378	1,384
Prepaid expenses and other assets	1,152	1,539
Total current assets	27,032	31,910
Fixed assets (note 3)	4,252	4,530
Intangible assets (note 3)	69	155
Goodwill (note 3)	2,424	2,424
Deferred income taxes (note 4)	3,243	3,245
Total assets	\$ 37,020	\$ 42,264

Liabilities and shareholders' equity:

Current liabilities:		
Accounts payable	\$ 1,000	\$ 2,430
Accrued liabilities	2,566	5,149
Income taxes payable	657	656
Deferred revenue	16,170	15,460
Total current liabilities	20,393	23,695
Shareholders' equity:		
Share capital (note 6)	55,627	56,408
Accumulated other comprehensive loss	(2,076)	(1,894)
Accumulated deficit	(36,924)	(35,945)
Total shareholders' equity	16,627	18,569
Total liabilities and shareholders' equity	\$ 37,020	\$ 42,264

Commitments (note 5)

See accompanying Notes to Consolidated Financial Statements

On behalf of the Board of Directors:



J. Ian Giffen
Director



Robert Gibb
Director

MKS Inc.
Consolidated Statements of Operations
(US dollars, thousands, except per share data)

<i>Years ended April 30</i>	2009	2008	2007
Revenue:			
License	\$ 20,272	\$ 27,178	\$ 20,234
Maintenance	27,963	25,837	22,092
Service	10,183	8,170	5,998
	58,418	61,185	48,324
Operating expenses:			
Cost of product and support	4,933	4,438	3,691
Cost of service	7,100	6,284	4,865
Sales and marketing	20,960	24,205	22,408
Research and development	12,436	13,886	12,555
General and administrative	7,528	8,767	7,239
Foreign exchange loss (gain)	437	(534)	(178)
Stock-based compensation (note 6(f))	872	661	1,056
	54,266	57,707	51,636
Operating income (loss)	4,152	3,478	(3,312)
Interest income, net	80	334	508
Income (loss) before income taxes	4,232	3,812	(2,804)
Income tax provision (recovery) (note 4):			
Current	21	(204)	(330)
Deferred	(75)	176	369
Income tax provision (recovery)	(54)	(28)	39
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Earnings (loss) per share (note 8):			
Basic	\$ 0.09	\$ 0.08	\$ (0.06)
Diluted	0.08	0.08	(0.06)
Weighted average number of shares outstanding	50,343	50,786	50,442
Diluted weighted average number of shares outstanding	50,597	51,105	50,442

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity
(US dollars, thousands)

	Common Shares (#)	Common Shares (\$)	Additional Paid in Capital	Accumulated Other Compre- hensive Loss	Accumulated Deficit	Total
Balances at April 30, 2006	49,969	\$ 52,638	\$ 345	\$ (1,293)	\$ (28,834)	\$ 22,856
Issuance of common shares	601	806	(8)	–	–	798
Stock-based compensation	–	–	1,056	–	–	1,056
Dividends paid	–	–	–	–	(4,040)	(4,040)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(378)	–	(378)
Net loss	–	–	–	–	(2,843)	(2,843)
Comprehensive loss	–	–	–	(378)	(2,843)	(3,221)
Balances at April 30, 2007	50,570	50,570	1,393	(1,671)	(35,717)	17,449
Issuance of common shares	857	931	(21)	–	–	910
Stock-based compensation	–	–	661	–	–	661
Dividends paid	–	–	–	–	(4,068)	(4,068)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(223)	–	(223)
Net income	–	–	–	–	3,840	3,840
Comprehensive income	–	–	–	(223)	3,840	3,617
Balances at April 30, 2008	51,427	54,375	2,033	(1,894)	(35,945)	18,569
Issuance of common shares	658	774	(103)	–	–	671
Shares repurchased for cancellation	(2,195)	(2,324)	–	–	(1,233)	(3,557)
Stock-based compensation	–	–	872	–	–	872
Dividends paid	–	–	–	–	(4,032)	(4,032)
Comprehensive income:						
Unrealized foreign exchange gain on hedged derivative contracts, net of taxes of nil	–	–	–	83	–	83
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(265)	–	(265)
Net income	–	–	–	–	4,286	4,286
Comprehensive income	–	–	–	(182)	4,286	4,104
Balances at April 30, 2009	49,890	\$ 52,825	\$ 2,802	\$ (2,076)	\$ (36,924)	\$ 16,627

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows
(US dollars, thousands)

<i>Years ended April 30</i>	2009	2008	2007
Cash flows provided by operating activities:			
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of fixed assets	1,335	1,341	981
Amortization of intangible assets	86	85	37
Stock-based compensation	872	661	1,056
Deferred income taxes	(75)	182	369
Loss on disposal of fixed assets	86	135	-
Change in operating assets and liabilities:			
Accounts receivable	8,650	(9,936)	4,908
Prepaid expenses and other assets	387	407	142
Accounts payable, net of deferred compensation	(1,430)	948	(157)
Accrued liabilities	(2,583)	2,427	33
Income taxes payable	1	586	(297)
Deferred revenue	710	1,677	1,457
Net cash provided by operating activities	12,325	2,353	5,686
Cash flows used for investing activities:			
Purchase of fixed assets	(1,251)	(1,238)	(2,171)
Purchase of intangible assets	-	-	(277)
Net cash used for investing activities	(1,251)	(1,238)	(2,448)
Cash flows provided by (used for) financing activities:			
Proceeds on issuance of common shares	671	910	798
Cash paid for shares repurchased for cancellation	(3,557)	-	-
Payment of dividends	(4,032)	(4,068)	(4,040)
Net cash (used for) financing activities	(6,918)	(3,158)	(3,242)
Effect of exchange rate changes on cash and cash equivalents	9	(282)	(431)
Change in cash and cash equivalents balances	4,165	(2,325)	(435)
Cash and cash equivalents, beginning of year	12,933	15,258	15,693
Cash and cash equivalents, end of year	\$ 17,098	\$ 12,933	\$ 15,258
Supplemental cash flow information:			
Interest received	\$ 80	\$ 334	\$ 503
Interest paid	-	-	-
Income taxes paid	52	3	111
Income tax refund received	166	766	178
Acquisition of fixed assets financed in accounts payable	-	-	188

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements
 (US dollars, thousands, except per share data)

MKS Inc. ("MKS" or the "Company") is a provider of software products and services in the application development and deployment (software "Application Lifecycle Management" or "ALM", formerly "Software Configuration Management") and cross-platform development and systems administration ("Interoperability" or "IO") markets. The Company's products are designed to increase development team productivity while improving the quality, reliability and availability of business critical software as it is developed and maintained, and to reduce development costs and time to market while enabling enhanced performance.

1. Significant accounting policies:

a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP).

b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

c) Revenue recognition:

The Company recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position ("SOP") No. 97-2, "*Software Revenue Recognition*", as amended. The Company's revenues are derived from product elements, comprised primarily of license fees, maintenance elements, which include post-contract customer support and, when and if available, product upgrades, and service elements, which include implementation, training and royalties from technology licenses. Fees for service elements are generally billed separately from licenses of the Company's products. Revenue from sales that, directly or indirectly, include multiple elements is allocated between the elements to the extent of their fair values where vendor specific objective evidence exists.

Revenue from product elements is recognized pursuant to a contract or purchase order, when each element is delivered to the customer, the fee is fixed and determinable, and collection of the related receivable is deemed probable by management. When all criteria other than the fee being fixed and determinable exist for product element sales, revenue is recognized as payments are due. Provisions for product returns and sales allowances are estimated and provided for at the time of sale. Such provisions are based upon management's evaluation of historical experience and current industry trends.

Maintenance elements are generally paid in advance, are non-refundable and are recognized ratably over the term of the agreement, which is typically twelve months.

Service elements are recognized when the services are performed.

Revenues related to royalties from technology licenses are recognized when earned and when collection is probable.

Elements that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the Company's balance sheet.

d) Research and development costs:

Research and development costs related to software products are expensed in the period incurred unless criteria for capitalization under US GAAP are met.

Based on the Company's product development process, technological feasibility is established once a working model has been produced and tested. To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, research and development costs have been charged to the consolidated statements of operations in the year in which they were incurred.

e) Use of estimates:

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the year to prepare these consolidated financial statements in conformity with US GAAP. Significant items subject to such estimates and assumptions include the assessment of the carrying amount of intangible assets and goodwill, revenue recognition and the valuation of allowances for receivables, share-based payments and income tax assets. Actual results could differ from these estimates.

f) Financial instruments:

The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amounts of financial instruments in these consolidated financial statements approximate their fair values.

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. Cash and cash equivalent balances consist of deposits with major commercial banks, the maturities of which are less than 90 days from the date of purchase. The Company performs ongoing credit evaluations of its customers' financial condition and establishes allowances for potential losses. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers. At April 30, 2009, no customer accounted for over 10% of accounts receivable. At April 30, 2008, one customer accounted for approximately 45% of accounts receivable. One customer accounted for approximately 12% of accounts receivable at April 30, 2007.

g) Accounting for foreign currencies:

The functional currency of MKS Inc. is the United States dollar. The financial statements of subsidiaries whose functional currency is not the United States dollar are translated to United States dollars at the period end rate for assets and liabilities and at the average rate for the period for revenue and expense amounts (including depreciation and amortization). The unrealized translation gains and losses on the net investment in those operations, including long-term intercompany advances forming part of the net investment, are accumulated as a component of accumulated other comprehensive loss within the shareholders' equity section of the consolidated balance sheet.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

Foreign currency balances of the Company and its subsidiaries are translated into the relevant functional currency at period end rates for assets, liabilities, foreign currency revenue, and expense amounts are translated at the exchange rate prevailing at the time of the transaction. Exchange gains and losses resulting from the translation of foreign currency transactions are reflected in the consolidated statement of operations in the year in which they occurred. During the year ended April 30, 2009, a foreign exchange gain (loss) of \$(437) was included in operating expenditures related to such foreign currency transactions (2008: \$534; 2007: \$178).

h) Prepaid expenses and other assets:

This amount is comprised of advance royalty payments made to third parties for the licensing of technology used directly or indirectly in the Company's products, rent and lease deposits and other prepaid expenses. Third party licensing and technology amounts are amortized over their applicable periods, which approximate the useful life of the asset. Rent and lease deposits are fixed in nature and are recoverable. Other prepaid expenses are expensed in the period in which the cost relates.

i) Fixed assets:

Fixed assets are recorded at cost and are depreciated over their estimated useful lives. Leasehold improvements are recorded at cost and depreciated over the lesser of their useful lives or the term of the related lease.

Expenditures for maintenance and repairs have been charged to the consolidated statements of operations as incurred. The depreciation policies for fixed assets by category are as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	20%
Applications software	Straight-line	3 1/3 years
Office furniture and equipment	Declining balance	20%

j) Goodwill:

The Company accounts for goodwill utilizing Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). This standard requires that goodwill be allocated to reporting units as of the date of the business combination. Goodwill has an indefinite life, is not amortized and is subject to an impairment test at least annually. An impairment loss is determined under this test by comparing the book value of goodwill to the fair value of the reporting unit to which the goodwill relates.

The Company's policy is to review for impairment of goodwill annually at April 30, based on a discounted cash flow basis for the Interoperability segment and a residual enterprise value method for the software Application Lifecycle Management segment. Based on this review, the Company has determined that no impairment exists.

k) Impairment of long-lived assets:

The Company accounts for the impairment and disposal of long-lived assets utilizing Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 requires that long-lived assets, which include fixed assets and intangible assets, other than goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of an asset is measured by comparing expected future cash flows to the carrying amount of the asset. If their carrying value exceeds the amount recoverable, a write down equal to the excess of their carrying value over their fair value is charged to the consolidated statement of operations.

l) Income taxes:

The Company accounts for income taxes using the asset and liability method of tax allocation. Under this method, differences between financial reporting and tax bases of assets and liabilities are measured at tax rates expected to be in effect when the differences reverse. The effect of a change in tax rate is recognized in the year of enactment.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net deferred tax assets quarterly and, based on all available evidence, both positive and negative, determines whether it is more likely than not that the net deferred tax assets, or a portion thereof, will be realized.

m) Comprehensive income (loss):

Comprehensive income (loss) includes net income (loss) and 'other comprehensive items', which refer to changes in the balances of assets and liabilities due to transactions with non-owner sources that have been excluded from net income (loss) and revenues, expenses, gains and losses that are recorded directly as a separate component of shareholders' equity.

n) Earnings (loss) per share:

Basic earnings (loss) per share have been computed by dividing net income (loss) by the weighted average number of Common Shares outstanding for the year. Diluted earnings (loss) per share include the effect, if any, of securities with dilutive potential on the Company's Common Shares. The treasury stock method is used for the calculation of the dilutive effect of stock options and warrants.

o) Stock based compensation:

The Company applies the fair value method of accounting for stock options prescribed under the provisions of SFAS 123R in accounting for its employee stock based compensation plans. Under SFAS 123R, the Company expenses stock-based compensation on a straight-line basis over the vesting period for each grant.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

p) Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated as hedges, changes in the fair value are either offset against the change in fair value, for the risk being hedged, of the assets and liabilities through earnings, or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

The Company only enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

q) Recent Accounting Pronouncements:

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141 Business Combinations (SFAS 141). The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for us beginning May 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157, does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB FSP 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On May 1, 2008, we adopted SFAS 157 except for those items that have been deferred under FSP FAS 157-2 and such adoption did not have a material impact on our consolidated financial statements. We are currently assessing the potential impact that the full adoption of SFAS 157 will have on our consolidated financial statements.

r) Reclassifications:

Certain prior year amounts have been reclassified to conform to current year financial statement presentation.

2. Cash and cash equivalents:

Included in the balance of cash and cash equivalents at April 30, 2009 is \$1,399 (April 30, 2008 - \$nil) of cash and cash equivalents held as a security deposit by the counterparty to forward foreign exchange contracts entered into by the Company.

3. Fixed assets, intangible assets and goodwill:

a) Fixed assets:

<i>As at April 30</i>	2009	2008
Computer equipment	\$ 9,978	\$ 9,736
Applications software	3,192	2,901
Office furniture and equipment	1,965	2,053
Leasehold improvements	1,972	1,888
	17,107	16,578
Accumulated depreciation	(12,855)	(12,048)
	\$ 4,252	\$ 4,530

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

b) Intangible assets:

<i>As at April 30</i>	2009		2008
Purchased software and technology, gross	\$ 681	\$	958
Other intangible assets, gross	297		389
Accumulated amortization	(909)		(1,192)
Intangible assets, net	\$ 69	\$	155

Intangible assets are amortized on a straight-line basis over their expected lives, periods ranging from 3 to 5 years.

c) Goodwill:

The Company's goodwill balances are assigned to reporting units that coincide with the Company's reportable operating segments as follows:

Application Lifecycle Management	\$ 2,424
Interoperability	-
Goodwill	\$ 2,424

4. Income taxes:

a) Income tax provision (recovery):

The income tax provision (recovery) consists of the following:

<i>Years ended April 30</i>	2009		2008		2007
Current:					
Canadian	\$ (235)	\$	(811)	\$	(330)
Foreign	256		607		-
Total current taxes	21		(204)		(330)
Deferred:					
Canadian	317		565		51
Foreign	(392)		(389)		318
Total deferred taxes	(75)		176		369
Income tax provision (recovery)	\$ (54)	\$	(28)	\$	39

b) Income tax reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to net income (loss) before income taxes. These differences result from the following items:

<i>Years ended April 30</i>	2009		2008		2007
Income (loss) before income taxes	\$ 4,232	\$	3,812	\$	(2,804)
Combined basic Federal and Provincial rates	33.3%		35.3%		36.1%
Computed expected tax expense (recovery)	\$ 1,409	\$	1,346	\$	(1,012)
Increase (decrease) resulting from:					
Losses not recognized for accounting	849		560		595
Benefit of Canadian investment tax credits	(156)		(525)		(211)
Utilization of tax assets not previously recognized	(885)		(347)		-
Change in valuation allowance	(1,560)		(1,433)		-
Foreign rate differences	(126)		4		191
Permanent difference related to stock-based compensation	289		233		381
Other permanent differences	67		80		68
Other	59		54		27
Income tax provision (recovery)	\$ (54)	\$	(28)	\$	39

During the year the Company reduced the valuation allowance against certain deferred tax assets in certain jurisdictions, as it is more likely than not that these losses will be utilized. This resulted in a credit to the deferred income tax provision of \$1,560.

c) Components of the deferred tax asset:

The components of the temporary differences, which have created the deferred tax asset, are as follows:

<i>Years ended April 30</i>	2009		2008
Tax depreciation greater than accounting depreciation	\$ 2,337	\$	3,459
Provisions not yet deducted for tax purposes	1,195		768
Other	87		41
Losses carried forward	8,699		9,488
	12,317		13,756
Valuation allowance	(7,696)		(9,127)
Deferred tax asset	\$ 4,621	\$	4,629

A valuation allowance of \$7,696 has been recorded for a portion of the deferred tax asset attributable to certain tax losses carried forward as it is more likely than not that the income tax benefit will not be realized.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, the Company believes it is more likely than not that the net amount of the deferred tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

d) Income tax losses available for carry forward:

The Company has domestic income tax losses available for carry forward of approximately \$4,050, all of which have no expiry date. In addition, the Company has \$21,700 of foreign income tax losses available of which \$13,900 expire between 2015 and 2027 with the remaining \$7,800 having no expiry date.

In addition, the Company has Canadian investment tax credits available for carry forward of approximately \$3,100. No recognition has been given to the potential benefit of the investment tax credits available for carry forward in these consolidated financial statements.

e) Current income tax provision (recovery):

<i>Years ended April 30</i>	2009	2008	2007
Gross current income tax provision (recovery)	\$ 256	\$ 607	\$ 116
Less: Investment tax credits realized	(235)	(811)	(446)
Net current income tax provision (recovery)	\$ 21	\$ (204)	\$ (330)

The Company qualifies for certain investment tax credits related to its research and development activities. As required under US GAAP, these investment tax credits have been accounted for as a reduction of the Company's current income tax provision or recovery.

f) Uncertain tax positions:

Effective May 1, 2007, the Company adopted the provisions of FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. As a result of the implementation of FIN 48 there was no material impact to the Company's opening tax balances based on the tax positions taken.

Upon adoption of FIN 48, the Company's policy is to include interest and penalties related to gross unrecognized tax benefits within our income tax provision. Previously, interest paid related to income taxes was classified in the Company's financial statements as interest expense. As of April 30, 2009, the Company had accrued \$nil related to the payment of such interest and penalties.

The Company is subject to income taxes in a number of jurisdictions due to its international operations. The Company is currently under examinations by Canadian tax authorities related to its 2006 and 2007 tax years.

As a result of the examinations noted above, the Company has received correspondence from the Canadian tax authorities, proposing adjustments primarily related to transfer pricing with its subsidiaries, to increase the Company's taxable income for the Canadian legal entity. The Company is in the process of responding to the correspondence and expects the matter to be finalized within the next 12 months. The range of reasonably possible outcomes is for an adjustment to increase the Company's taxable income in Canada by approximately \$100 up to \$1,700. The Company would make any required filings in order to obtain offsetting reductions to taxable income in the applicable jurisdictions outside of Canada, such that the overall impact to the Company's taxable income in all jurisdictions would be minimal.

The major tax jurisdictions the Company operates within and open tax years in each of those jurisdictions is indicated in the following table:

<i>Major Tax Jurisdiction</i>	<i>Open Tax Years</i>
Canada	2004 to 2008
United States	2006 to 2008
United Kingdom	2005 to 2008
Germany	2006 to 2008

5. Commitments, contingencies and guarantees:

a) Commitments:

Future minimum lease payments under non-cancelable operating leases for the year ended April 30, 2009 are as follows:

2010	\$ 1,650
2011	1,100
2012	392
2013	284
2014	189
Thereafter	199
Total minimum lease payments	\$ 3,814

Rent expense for fiscal 2009, 2008 and 2007 was \$1,710, \$1,773 and \$1,627, respectively. These amounts are net of sublease income of \$231, \$65 and \$12 for each of fiscal 2009, 2008 and 2007, respectively. The Company is also responsible for certain common area costs at its various leased premises.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

b) Guarantees:

The Company's standard warranty covers up to a 90-day period and warrants against substantial nonconformance of the Company's software to the published documentation at time of delivery. The Company has not experienced any material returns where it was under obligation to honor this standard warranty, and as such, there is no warranty provision recorded in the consolidated financial statements.

The Company's software license agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software products infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs attributable to such indemnification and has not accrued any liabilities related to such obligations in the consolidated financial statements.

The Company has provided standard indemnifications to its landlords under certain property lease agreements for claims by third parties in connection with the Company's use of the premises. In addition, the Company may from time to time, in the normal course of business provide indemnifications with respect to the procurement and provision of products and services. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. Historically, the Company has not made any payments relating to such indemnifications.

6. Shareholders' equity:

a) Share capital:

<i>As at April 30</i>	2009	2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 49,890 (2007 – 51,427), no par value	\$ 52,825	\$ 54,375
Additional paid in capital	2,802	2,033
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 55,627	\$ 56,408

The Preferred Shares are non-voting, unless dividends are in arrears, and rank in priority to the Common Shares in respect of the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or wind-up of the Company.

b) Transactions:

Fiscal 2009: The Company issued 478 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$508. The Company issued 180 Common Shares to employees under the ESPP for aggregate proceeds of \$163. The Company repurchased 2,195 Common Shares pursuant to its Normal Course Issuer Bid for an aggregate cost of \$3,557.

Fiscal 2008: The Company issued 775 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$807. The Company issued 82 Common Shares to employees under the ESPP for aggregate proceeds of \$103.

Fiscal 2007: The Company issued 601 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$798.

c) Stock option plans:

The Company's stock option plans are intended to encourage ownership of the Company by directors, officers and employees of the Company and its subsidiaries. The maximum number of Common Shares that may be issued under the plans is 11,663 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. The maximum number of Common Shares that may be reserved for issuance to any one person under the plans is 5% of the Common Shares outstanding at the time of the grant. Generally, options issued under the plans vest annually over a four-year period. Any option granted which, for any reason, is cancelled or terminated prior to its exercise will again become available for grant under the plans. In accordance with the plans, the exercise price of options is determined based on the fair value of the Company's Common Shares at the date of grant.

Options granted under the plans may be exercised during a period not exceeding seven years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer or employee of the Company or any of its subsidiaries, as applicable. Options issued under the plans are non-transferable.

d) Continuity of options issued under the plans:

A summary of the status of the plans as of April 30, 2009, 2008 and 2007 is presented below:

<i>As at April 30</i>	2009		2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	6,178	Cdn\$1.66	7,652	Cdn\$1.69	7,625	Cdn\$1.59
Granted	1,025	1.60	823	1.54	795	2.69
Exercised	(478)	1.30	(775)	1.30	(601)	1.48
Forfeited	(277)	1.95	(1,522)	1.90	(167)	2.96
Outstanding, end of year	6,448	Cdn\$1.67	6,178	Cdn\$1.66	7,652	Cdn\$1.69
Options exercisable, end of year	4,787	Cdn\$1.65	4,833	Cdn\$1.59	6,187	Cdn\$1.55

MKS Inc.
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- e) Summary of the balances of options issued under the plans at April 30, 2009:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Cdn\$ 0.60 – 0.96	160	2.3 years	Cdn\$ 0.95	160	Cdn\$ 0.95
1.00 – 1.37	2,458	2.2	1.30	2,431	1.30
1.41 – 1.98	2,803	4.4	1.70	1,373	1.81
2.07 – 2.75	1,027	3.7	2.57	823	2.54
	6,448	3.4 years	Cdn\$ 1.67	4,787	Cdn\$ 1.65

- f) Impact of stock compensation:

The impact of the stock compensation charge by financial statement caption would be as follows:

Years ended April 30	2009	2008	2007
Cost of product and support	\$ 19	\$ 13	\$ 24
Cost of service	30	23	39
Sales and marketing	276	210	306
Research and development	212	145	242
General and administrative	335	270	445
	\$ 872	\$ 661	\$ 1,056

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the year ended April 30, 2009: risk free interest rate – 3% (2008 – 4%; 2007 – 5%), dividend yield – 6% (2008 – 6%; 2007 – 3%), expected lives of options – 5 years (2008 – 5 years; 2007 – 5 years), expected volatility – 59% (2008 – 69%; 2007 – 77%) and expected forfeiture rate – 17% (2008 – 17%; 2007 – 17%). The fair value of options applicable to non-vested awards at April 30, 2009 was \$669 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.1 years.

- g) Employee Share Purchase Plan:

In 2006, the Company's shareholders approved an Employee Share Purchase Plan (ESPP) in order to encourage the Company's employees and directors to invest in its shares. The ESPP allows participants to contribute a specified percentage of their base salary, generally through payroll deductions, for the purposes of purchasing shares in the Company from treasury. The ESPP provides for quarterly purchases to be at the share's market value at the time of purchase less 15%.

During the year ended April 30, 2009, 180 shares (2008: 82; 2007: nil) were issued under the ESPP for aggregate proceeds of \$103 (2008: \$103; 2007: \$nil). A stock-based compensation charge of \$29 was charged related to the discount provided to ESPP participants during the year ended April 30, 2009 (2008: \$18; 2007: \$nil).

7. Derivative Instruments and Hedging Activities:

The Company holds foreign exchange rate related derivative instruments to manage its exposure to foreign currency price fluctuations. The Company does not enter into derivative instruments for any purpose other than cash-flow-hedging. The Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in foreign exchange rates, the Company exposes itself to credit risk and market risk.

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates, currency exchange rates, or other factors that impact prices.

The Company assesses foreign exchange rate cash flow risk by continually identifying and monitoring cash flows in various currencies that may adversely impact expected future cash flows in US Dollars and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor foreign exchange rate cash flow risk attributable to the Company's forecasted non-US Dollar cash flows as well as the Company's offsetting hedge positions.

The Company has entered into cash flow hedges to purchase Canadian Dollars at times in the future to help mitigate foreign exchange fluctuations between the Canadian and United States dollars through July 2010. These hedges are accounted for as designated cash flow hedges. At April 30, 2009, these hedges were assessed as fully effective and the unrealized gain or loss on those hedges was reflected in the Company's Other Comprehensive Income (Loss). As at April 30, 2009, the Company has recorded an unrealized gain in Other Comprehensive Income (Loss) and accounts payable of \$83. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

As of April 30, 2009, \$51 of deferred losses on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next 12 months, as the derivative contracts are executed. There were no cash flow hedges discontinued during 2009, 2008 or 2007.

MKS Inc.
Notes to Consolidated Financial Statements
(US dollars, thousands, except per share data)

8. Earnings (loss) per share:

Basic and diluted earnings (loss) per share are calculated as follows:

<i>Years ended April 30</i>	2009	2008	2007
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Weighted average number of shares outstanding	50,343	50,786	50,442
Incremental shares from assumed conversion of stock options & warrants	254	319	–
Adjusted weighted average number of shares outstanding	50,597	51,105	50,422
Earnings (loss) per share:			
Basic	\$ 0.09	\$ 0.08	\$ (0.06)
Diluted	\$ 0.08	\$ 0.08	\$ (0.06)

For the year ended April 30, 2007, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for that period and to do so would have been anti-dilutive.

9. Segmented information:

The Company evaluates operational performance based on two operating segments: software Application Lifecycle Management (ALM) and Interoperability (IO). The segments are managed separately because each requires unique marketing strategies and is exposed to different economic environments. The ALM segment develops and markets software solutions that assist programmers in the creation of traditional and Web-based software, and in the management of the software development process. The IO segment encompasses products that address the issues surrounding cross-platform development, application migration, systems administration and network management.

It is the Company's policy to price internal sales or transfer values for services on an equivalent basis as that used for external pricing.

The following schedule provides required segmented information disclosure.

<i>Years ended April 30</i>	2009			2008			2007		
	ALM	IO	Total	ALM	IO	Total	ALM	IO	Total
Revenue:									
North America	\$ 30,247	\$ 5,261	\$ 35,508	\$ 27,358	\$ 5,301	\$ 32,659	\$ 25,377	\$ 6,012	\$ 31,389
Europe & Other	20,760	2,150	22,910	26,395	2,131	28,526	14,793	2,142	16,935
Total revenue	\$ 51,007	\$ 7,411	\$ 58,418	\$ 53,753	\$ 7,432	\$ 61,185	\$ 40,170	\$ 8,154	\$ 48,324
Revenue:									
License	\$ 15,627	\$ 4,645	\$ 20,272	\$ 22,857	\$ 4,321	\$ 27,178	\$ 15,248	\$ 4,986	\$ 20,234
Maintenance	25,197	2,766	27,963	22,726	3,111	25,837	18,934	3,158	22,092
Service	10,183	–	10,183	8,170	–	8,170	5,988	10	5,998
Total revenue	\$ 51,007	\$ 7,411	\$ 58,418	\$ 53,753	\$ 7,432	\$ 61,185	\$ 40,170	\$ 8,154	\$ 48,324
Income (loss):									
Operating income (loss)	\$ 2,421	\$ 1,731	\$ 4,152	\$ 1,562	\$ 1,916	\$ 3,478	\$ (5,657)	\$ 2,345	\$ (3,312)
Interest and income taxes			134			362			469
Net income (loss)			\$ 4,286			\$ 3,840			\$ (2,843)
Purchase of fixed assets and intangible assets									
	\$ 1,251	\$ –	\$ 1,251	\$ 1,238	\$ –	\$ 1,238	\$ 2,570	\$ 66	\$ 2,636
Depreciation and amortization of fixed assets and intangible assets									
	\$ 1,400	\$ 21	\$ 1,421	\$ 1,382	\$ 44	\$ 1,426	\$ 987	\$ 31	\$ 1,018

	April 30, 2009			April 30, 2008		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 12,805	\$ –	\$ 12,805	\$ 10,366	\$ –	\$ 10,366
Other	12,832	11,383	24,215	19,331	12,567	31,898
Total assets	\$ 25,637	\$ 11,383	\$ 37,020	\$ 29,697	\$ 12,567	\$ 42,264
Fixed assets, intangible assets and goodwill						
	\$ 6,611	\$ 134	\$ 6,745	\$ 6,954	\$ 155	\$ 7,109

During the years ended April 30, 2009 and 2007, no customers accounted for 10% or more of revenue.

During the year ended April 30, 2008 one customer accounted for approximately 11% of revenue.

Geographic segmentation of revenue is determined based on the location of the customer.

Corporate Information

Board of Directors

Philip C. Deck
Chairman of the Board and
Chief Executive Officer
MKS Inc.

Robert Gibb
Vice Chairman of the Board
President
The Cypress Group Inc.

Howard Gwin
Director
Executive Management Consultant

Christopher S. L. Hoffmann
Director
Executive Vice President
Brompton Limited

Gerald S. Hurlow
Director
Managing Partner,
HSD Partners Inc.

J. Ian Giffen
Director
Independent Consultant

Alex White
Director and Founder
Chief Architect
MKS Inc.

Auditors
KPMG LLP

Corporate Counsel
McCarthy Tétrault LLP
Sullivan & Worcester LLP
Cooley Godward Kronish LLP

Registrar and Transfer Agent
CIBC Mellon Trust Company

Corporate Officers

Philip C. Deck
Chairman of the Board and
Chief Executive Officer

Michael W. Harris
President and
Chief Operating Officer

Douglas M. Sawatzky
Chief Financial Officer

Larry Wasylshyn
Corporate Secretary and General
Counsel

Investor Information

Requests for information should be
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Tel: 519 884 2251
Fax: 519 884 8861
Email: investor@mks.com

Annual Meeting

The annual meeting of shareholders
will be held at 4:00 pm on Tuesday,
July 7, 2009 at:

MKS Inc.
410 Albert Street
Waterloo, ON N2L 3V3

Note: There will be a brief
management presentation on this
date. For a more comprehensive
overview, please visit our Investor
Portal at www.mks.com/

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