

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

	July 31 2009	April 30 2009
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 19,729	\$ 17,098
Accounts receivable, net of allowances for doubtful accounts of \$82 (April 30, 2009 – \$89)	6,381	7,404
Future income taxes	2,496	2,496
Deferred gain on forward contracts	1,905	83
Prepaid expenses and other assets	1,740	1,152
Total current assets	32,251	28,233
Fixed assets (note 3)	4,163	4,252
Intangible assets (note 3)	47	69
Goodwill (note 3)	4,494	4,494
Future income taxes	1,274	2,125
Total assets	\$ 42,229	\$ 39,173
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 765	\$ 1,083
Accrued liabilities	2,912	2,566
Income taxes payable	728	657
Deferred revenue	16,336	16,170
Total current liabilities	20,741	20,476
Shareholders' equity:		
Share capital (note 6)	65,080	64,399
Accumulated other comprehensive income (loss)	831	(1,131)
Accumulated deficit	(44,423)	(44,571)
Total shareholders' equity	21,488	18,697
Total liabilities and shareholders' equity	\$ 42,229	\$ 39,173

See accompanying Notes to Consolidated Financial Statements

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

<i>Three months ended</i>	July 31 2009	July 31 2008
Revenue:		
License	\$ 5,624	\$ 6,156
Maintenance	7,415	7,035
Service	2,701	2,174
	15,740	15,365
Operating expenses:		
Cost of product and support	1,229	1,240
Cost of service	1,731	1,788
Sales and marketing	5,217	5,862
Research and development (note 4)	3,129	3,109
General and administrative	1,924	1,963
Foreign exchange (gain) loss	(41)	34
Stock-based compensation (note 5)	176	171
	13,365	14,167
Operating income	2,375	1,198
Interest income, net	4	32
Income before income taxes	2,379	1,230
Income tax provision:		
Current	91	286
Deferred	881	325
Income tax provision	972	611
Net income	\$ 1,407	\$ 619
Earnings per share (note 6):		
Basic	\$ 0.14	\$ 0.06
Diluted	\$ 0.14	\$ 0.06
Weighted average number of shares outstanding	10,036	10,285
Diluted weighted average number of shares outstanding	10,118	10,402

See accompanying Notes to Consolidated Financial Statements

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

	Common Shares (#)	Common Shares (\$)	Additional Paid In Capital	Accumulated Other Comprehen- sive Loss	Accumulated Deficit	Total
Balances at April 30, 2008	10,285	\$ 62,399	\$ 3,107	\$ (949)	\$ (43,918)	\$ 20,639
Issuance of common shares	50	283	–	–	–	283
Stock-based compensation	–	–	171	–	–	171
Shares repurchased for cancellation	(141)	(856)	–	–	(200)	(1,056)
Dividends paid	–	–	–	–	(1,033)	(1,033)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	–	–	–	(46)	–	(46)
Unrealized loss on cash flow hedges	–	–	–	(22)	–	(22)
Net income	–	–	–	–	619	619
Comprehensive income	–	–	–	(68)	619	551
Balances at July 31, 2008	10,194	\$ 61,826	\$ 3,278	\$ (1,017)	\$ (44,532)	\$ 19,555

	Common Shares (#)	Common Shares (\$)	Additional Paid In Capital	Accumulated Other Comprehen- sive Loss	Accumulated Deficit	Total
Balances at April 30, 2009	9,978	\$ 60,566	\$ 3,833	\$ (1,131)	\$ (44,571)	\$ 18,697
Issuance of common shares	95	505	–	–	–	505
Stock-based compensation	–	–	176	–	–	176
Dividends paid	–	–	–	–	(1,259)	(1,259)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	–	–	–	140	–	140
Unrealized gain on cash flow hedges	–	–	–	1,822	–	1,822
Net income	–	–	–	–	1,407	1,407
Comprehensive income	–	–	–	1,962	1,407	3,369
Balances at July 31, 2009	10,073	\$ 61,071	\$ 4,009	\$ 831	\$ (44,423)	\$ 21,488

See accompanying Notes to Consolidated Financial Statements

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

<i>Three months ended</i>	July 31 2009	July 31 2008
Cash flows provided by operating activities:		
Net income	\$ 1,407	\$ 619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of fixed assets	337	316
Amortization of intangible assets	22	22
Stock-based compensation	176	171
Future income taxes	881	325
Loss on disposal of fixed assets	65	25
Change in operating assets and liabilities:		
Accounts receivable	1,023	3,830
Prepaid expenses and other assets	(588)	(314)
Accounts payable, net of deferred compensation	(318)	(831)
Accrued liabilities	346	(1,592)
Income taxes payable	71	248
Deferred revenue	166	(2,117)
Net cash provided by operating activities	3,588	702
Cash flows used for investing activities:		
Purchase of fixed assets	(279)	(203)
Net cash used for investing activities	(279)	(203)
Cash flows provided by (used for) financing activities:		
Proceeds on issuance of common shares	505	283
Cash paid for shares repurchased for cancellation	-	(1,056)
Payment of dividends	(1,259)	(1,033)
Net cash (used for) financing activities	(754)	(1,806)
Effect of exchange rate changes on cash and cash equivalents	76	(117)
Change in cash and cash equivalents balances	2,631	(1,424)
Cash and cash equivalents, beginning of period	17,098	12,933
Cash and cash equivalents, end of period	\$ 19,729	\$ 11,509
Supplemental cash flow information:		
Interest received	\$ 4	\$ 32
Interest paid	-	-
Income taxes paid	-	30

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements

(US dollars, thousands, except per share data, unaudited)

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") 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:

The accompanying consolidated financial statements of MKS Inc. ("MKS" or the "Company") as at July 31, 2009 and for the three month periods ended July 31, 2009 and 2008 are unaudited and have been prepared in accordance with generally accepted accounting principles in Canada for interim financial information. The same accounting policies and methods of application as used in the April 30, 2009 annual financial statements have been applied consistently with these interim statements.

Accordingly, these consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended April 30, 2009.

b) 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.

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 April 2011. These hedges are accounted for as designated cash flow hedges. At July 31, 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 July 31, 2009, the Company has recorded an unrealized gain in Other Comprehensive Income (Loss) of \$1,905. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

c) 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 July 31, 2009 is \$1,217 (April 30, 2009 - \$1,399) 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:

	July 31 2009	April 30 2009
Computer equipment	\$ 9,820	\$ 9,978
Applications software	3,181	3,192
Office furniture and equipment	1,892	1,965
Leasehold improvements	1,998	1,972
	16,891	17,107
Accumulated depreciation	(12,728)	(12,855)
	\$ 4,163	\$ 4,252

b) Intangible assets:

	July 31 2009	April 30 2009
Purchased software and technology, gross	\$ 6,435	\$ 6,435
Other intangible assets, gross	297	297
Accumulated amortization	(6,685)	(6,663)
Intangible assets, net	\$ 47	\$ 69

Intangible assets are amortized on a straight-line basis over their expected lives, periods ranging from three to five 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	2,070
Goodwill	\$ 4,494

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Notes to Consolidated Financial Statements

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4. Research and development expenditures

<i>Three months ended</i>	July 31 2009	July 31 2008
Gross research and development expenditures	\$ 3,185	\$ 3,158
Less: Investment tax credits realized	(56)	(49)
Net research and development expenditures	\$ 3,129	\$ 3,109

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

5. Shareholders' equity:

a) Share capital:

The Company declared a 5-for-1 share consolidation of the Company's outstanding common shares on July 27, 2009. Shareholders received one common share of the Company for each five common shares previously held. Any partial shares resulting from the share consolidation were cancelled. The share consolidation was effective at the opening of trading on July 27, 2009. All share, earnings per share and stock option data for the current and prior comparative periods have been adjusted to reflect this share consolidation.

	July 31 2009	April 30 2009
Common shares:		
Authorized – unlimited		
Issued and outstanding – 10,073 (April 30, 2009 – 9,978), no par value	\$ 61,071	\$ 60,566
Additional paid in capital	4,009	3,833
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 65,080	\$ 64,399

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.

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b) Continuity of options issued under the plans:

A summary of the status of the plans for the three months ended July 31, 2009 and the year ended April 30, 2009 is presented below:

	Three Months Ended July 31, 2009		Year Ended April 30, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,289	Cdn\$8.33	1,236	Cdn\$8.30
Granted	180	7.96	205	8.00
Exercised	(88)	6.14	(96)	6.50
Forfeited	(11)	6.93	(56)	9.75
Outstanding, end of period	1,370	Cdn\$8.43	1,289	Cdn\$8.33
Options exercisable, end of period	930	Cdn\$8.48	957	Cdn\$8.25

c) Summary of the balances of options issued under the plans at July 31, 2009:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Cdn\$ 3.00 – 4.80	32	2.1 years	Cdn\$4.74	32	Cdn\$4.74
5.00 – 6.85	395	2.4	6.57	390	6.58
7.05 – 9.90	738	4.8	8.36	335	8.86
9.95 – 13.75	205	3.4	12.85	173	12.72
	1,370	3.9 years	Cdn\$8.43	930	Cdn\$8.48

d) Impact of stock compensation:

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

<i>For the three months ended</i>	July 31 2009	July 31 2008
Cost of product and support	\$ 2	\$ 3
Cost of service	6	6
Sales and marketing	50	58
Research and development	37	38
General and administrative	81	66
	\$ 176	\$ 171

e) Employee Share Purchase Plan:

During the three months ended July 31, 2009, 7 shares (2008 – 3) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$40 (2008 - \$22). A stock-based compensation charge of \$7 was charged related to the discount provided to ESPP participants during the three months ended July 31, 2009 (2008 - \$4).

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6. Earnings per share:

As described in note 6, a 5-for-1 share consolidation was implemented effective at the opening of trading on July 27, 2009. All share, earnings per share and stock option data for the current and prior comparative periods have been adjusted to reflect this share consolidation.

Basic and diluted earnings per share are calculated as follows:

<i>For the three months ended</i>	July 31 2009	July 31 2008
Net income	\$ 1,407	\$ 619
Weighted average number of shares outstanding	10,036	10,285
Incremental shares from assumed conversion of stock options & warrants	82	117
Adjusted weighted average number of shares outstanding	10,118	10,402
Earnings per share:		
Basic	\$ 0.14	\$ 0.06
Diluted	\$ 0.14	\$ 0.06

7. Financial Instruments:

The Company has exposures to the following types of risks related to financial instruments: credit risk, market risk and liquidity risk.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company has a credit policy under which its customers are analyzed for creditworthiness. One customer of the Company accounted for 12% of accounts receivable at July 31, 2009. Also at July 31, 2009, 4% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$82 for potential credit risk in accounts receivable at July 31, 2009, down \$7 from the balance at April 30, 2009.

The Company limits its exposure to credit risk arising from derivative financial instruments by transacting with counterparties that are stable and of high credit quality.

The carrying amount of the Company's financial assets (cash and cash equivalents and accounts receivable) represents the maximum credit exposure from those items.

Market risk is the risk that changes in market prices (such as foreign exchange rates) will impact the Company's net income or the value of the financial instruments it holds.

The Company operates internationally and is subject to market risk from changes in foreign exchange rates, primarily Canadian Dollars, UK Pounds and Euros. The Company has entered into forward foreign exchange contracts to fix, in US Dollars, a portion of its Canadian Dollar expenditures.

A 5% weakening of the US Dollar against the Canadian Dollar, UK Pound and Euro would have resulted in a decrease in net income for the three months ended July 31, 2009 of \$7 (2008 – \$93), assuming that all other variables remained constant. A 5% strengthening of the US Dollar would have an equal, but opposite effect.

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due.

The Company held cash and cash equivalents of \$19,729 and had positive working capital of \$11,510 at July 31, 2009. The Company believes that its current cash balances and cash flows from operations will be sufficient to meet its future working capital and capital expenditure requirements.

