

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 three and six month periods ended October 31, 2007 and October 31, 2006.

This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company and the related notes for the three and six month periods ending October 31, 2007 and 2006. 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 unaudited consolidated financial statements of MKS prepared in accordance with United States generally accepted accounting principles ("US GAAP"). The date of this MD&A is November 26, 2007.

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

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 of 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, fluctuations in quarterly results, currency exchange rate fluctuations, intense competition, management of growth, rapid technological change, dependence on and retention of management and key employees, international sales, importance of maintenance contracts, economic uncertainty, 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, limited financial resources, 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.

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. Application lifecycle management describes a set of capabilities and artifacts used to manage all activities surrounding the delivery of software applications within large enterprises, from requirements management through to final deployment. Within this market, the Company provides a software platform and services that facilitate collaboration between large multi-site development teams, control the creation and ongoing maintenance of software systems, and manage business processes utilized by information technology ("IT") departments of Global 1000 companies. MKS's solution for the ALM market, MKS Integrity, is a highly integrated ALM platform, spanning all major operating environments, all phases of the software development lifecycle and supporting critical business transformations, including service oriented architecture, application rationalization and outsourcing. MKS Integrity's single architecture design drives high levels of user productivity and facilitates rapid deployment and process standardization while delivering a complete view of application development activity through real-time metrics, trends and reporting. MKS Integrity also provides essential support for IT operations through its solutions for IT Infrastructure Library (commonly known as "ITIL") software change staging and deployment technology and IT change request management.

MKS focuses its marketing and sales efforts on enterprises with large software development organizations. The Company primarily targets companies with more than 10,000 employees and more than 1,000 IT staff. These large organizations rely on the internal development of software systems to facilitate critical business operations. Examples of corporate software systems include customer billing systems, inventory management and warehousing systems and online banking systems. Additionally, many organizations have large engineering departments, where embedded software is a key component of the organization's product offerings, such as automotive braking systems, banking automated teller machines, wireless communications and semiconductors.

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

Performance Highlights

Overall, for the three months ended October 31, 2007 ("Q208") revenue increased 18% to \$13.6 million, up from \$11.5 million for the three months ended October 31, 2006 ("Q207"). This was driven by growth in all areas: license revenue (16%), maintenance revenue (17%) and services revenue (33%), over Q207. For the six months ended October 31, 2007, revenue increased 13% to \$27.2 million, up 13% from \$24.1 million for the six months ended October 31, 2006.

Revenue in Q208 was generated primarily from the North American and European markets, the Company's principal geographic segments. The volume of transactions over \$100,000 increased in Q208 as the Company completed 30 transactions over \$100,000 in Q208 compared with 19 in Q207. Of the transactions over \$100,000 completed during Q208, 8 were related to maintenance renewal contracts compared to 5 such contracts during Q207. There were no transactions in excess of \$500,000 in either Q208 or Q207.

Service revenue increased 33% to \$2.1 million in the second quarter of fiscal 2008 compared with \$1.6 million in the second quarter of fiscal 2007. On a year to date basis, service revenue increased 24% in the first six months of fiscal 2008 compared with the same period in fiscal 2007. MKS experienced longer and more numerous service engagements as its customers are utilizing the expertise of MKS and its consulting partners in increasing amounts to plan and implement more complex and comprehensive ALM implementations.

Operating costs increased \$0.4 million to \$13.1 million for the current quarter compared to operating costs of \$12.7 million in Q207. On a year to date basis, operating costs increased from \$25.9 million for the six months ended October 31, 2006 to \$27.1 million for the six months ended October 31, 2007. Included in the \$0.4 million cost increase in Q208 compared with Q207 was an incremental \$0.3 million in services costs, incurred primarily from third-party services consultants, to provide the capacity needed to deliver services during the quarter. Average headcount for Q208 decreased to 301 compared with 323 in Q207. The lower costs associated with the headcount reduction were largely offset by higher costs due to expenses denominated in non-US dollar currencies. In Q208, the Company continued to be subject to fluctuations in the exchange rates among the main non-US dollar currencies in which the Company operates, namely the Canadian dollar, Pound Sterling and Euro. These fluctuations had the effect of increasing costs in the current quarter, compared with Q207, by \$0.6 million (\$1.0 million on a year to date basis) as each of those currencies strengthened against the US dollar during the period.

For the second quarter of fiscal 2008, approximately 55% of operating costs were derived from non-US dollar currencies, while approximately 33% of total revenue was derived from non-US dollar currencies. The most significant cost currency exposure to the Company is the Canadian dollar which accounts for approximately one third of the Company's total costs in any given quarter. During the quarter, the Company's Canadian dollar costs were translated into US dollars at an average rate of \$0.98 Canadian dollars to \$1 US dollar.

The Company has maintained profitability in its Interoperability business segment in spite of steadily declining revenues in that segment. Revenue for the segment declined 5% to \$1.8 million in Q208, down from \$1.9 million in Q207. On a year to date basis Interoperability revenue declined 8% in fiscal 2008 compared to fiscal 2007. In Q208, operating margin was 22%, down from 24% in Q207. On a year to date basis operating margin decreased to 25% in fiscal 2008 compared with 29% for the same period in fiscal 2007.

Supplementary Financial Information

(tabular amounts in thousands, except per share amounts)

Select Unaudited Consolidated Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information of the Company for each of the eight quarters ended October 31, 2007. 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 the 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							
	Jan 31 2006	Apr 30 2006	Jul 31 2006	Oct 31 2006	Jan 31 2007	Apr 30 2007	Jul 31 2007	Oct 31 2007
License revenue	\$ 7,399	\$ 6,585	\$ 6,014	\$ 4,425	\$ 4,229	\$ 5,566	\$ 5,802	\$ 5,128
Maintenance revenue	4,853	4,887	5,205	5,491	5,727	5,669	6,205	6,402
Service revenue	1,161	1,096	1,400	1,593	1,594	1,411	1,600	2,098
Total revenue	<u>\$ 13,413</u>	<u>\$ 12,568</u>	<u>\$ 12,619</u>	<u>\$ 11,509</u>	<u>\$ 11,550</u>	<u>\$ 12,646</u>	<u>\$ 13,607</u>	<u>\$ 13,628</u>
Operating income (loss)	<u>\$ 1,575</u>	<u>\$ 699</u>	<u>\$ (618)</u>	<u>\$ (1,158)</u>	<u>\$ (1,122)</u>	<u>\$ (414)</u>	<u>\$ (326)</u>	<u>\$ 487</u>
Net income (loss)	\$ 1,629	\$ 6,009	\$ (488)	\$ (690)	\$ (1,207)	\$ (458)	\$ (320)	\$ 197
per share, basic	\$ 0.04	\$ 0.13	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.00
per share, diluted	\$ 0.03	\$ 0.12	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.00
Total assets	<u>\$ 32,583</u>	<u>\$ 39,689</u>	<u>\$ 38,083</u>	<u>\$ 35,811</u>	<u>\$ 36,218</u>	<u>\$ 35,506</u>	<u>\$ 34,378</u>	<u>\$ 32,965</u>
Cash dividends per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>

As at October 31, 2007, 50,672,000 common shares of the Company and options to purchase 8,171,000 common shares of the Company were outstanding.

The Company's quarterly operating results have fluctuated due to variable licensing activity on a quarterly basis. Due to very high maintenance renewal rates, maintenance revenues have grown steadily. And due to a focused initiative to increase the relative amount of services revenue in the mix, services revenues have grown rapidly in fiscal 2008.

Overall, the company has experienced increasing costs due to the appreciation of the Canadian dollar, Euro and British pound versus the US dollar. The exchange rate changes have also had a modestly positive impact on non US denominated revenue, but in significantly lesser magnitude than the cost impact. In late 2006, the company increased its investment in sales and marketing resources in order to expand its field sales force impacting costs during fiscal 2007.

Financial Results Analysis

This section discusses the unaudited consolidated financial results of the Company and each of its operating segments for the three and six months ended October 31, 2007. Revenue and operating income from operations are analyzed on a segmented basis.

Revenue

(tabular amounts in thousands)

	Three Months Ended October 31			Six Months Ended October 31		
	2007	2006	% Change	2007	2006	% Change
ALM segment:						
License revenue	\$ 4,158	\$ 3,372	23%	\$ 8,865	\$ 8,075	10%
Maintenance revenue	5,609	4,695	19%	11,016	9,097	21%
Service revenue	2,098	1,583	33%	3,698	2,983	24%
	<u>11,865</u>	9,650	23%	<u>23,579</u>	20,155	17%
Interoperability segment:						
License revenue	970	1,053	-8%	2,065	2,364	-13%
Maintenance revenue	793	796	0%	1,591	1,599	-1%
Service revenue	-	10	-100%	-	10	-100%
	<u>1,763</u>	1,859	-5%	<u>3,656</u>	3,973	-8%
Total revenue	<u>\$ 13,628</u>	\$ 11,509	18%	<u>\$ 27,235</u>	\$ 24,128	13%

ALM Segment

License revenue in the ALM segment increased by 23% in Q208 compared to Q207 and increased by 10% for the six months ended October 31, 2007 compared to the same period in the prior fiscal year. Revenue from non-North American markets increased to 42% of total ALM revenue in Q208 from 33% in Q207.

License revenue is derived from three primary sources: new customers, large follow-on transactions with existing customers who are rolling out new projects, and smaller incremental licensing transactions with existing customers with expanding operations. In Q208, licensing revenue was driven primarily by several mid-size deals with new customers. The number of large licensing transactions from existing customers was also up from previous quarters.

There were no license transactions greater than \$500,000 during the quarter and 29 total transactions greater than \$100,000. The increase of the transactions greater than \$100,000 was related to the Company's strong customer base and the renewal of annual maintenance contracts during the quarter. Smaller incremental transactions were close to normal levels.

Service revenue grew 33% to \$2.1 million in Q208 compared to \$1.6 million during Q207. Service revenue was driven in Q208 by the strong backlog of services sold in licensing transactions in addition to the growing trend of stand alone services engagements. The Company continues to build its service practice through key engagements with customers in all geographic segments and increasing its penetration into key accounts. MKS experienced longer and more numerous service engagements as its customers are utilizing the expertise of MKS and its consulting partners in increasing amounts to plan and implement more complex and comprehensive ALM implementations. In Q208 in particular, the Company saw strong demand for its services offerings with 7 of the 29 greater than \$100,000 transactions being stand alone services engagements compared to 2 in Q207.

Maintenance revenue growth in Q208 was primarily attributable to the maintenance component of new transactions and the renewal of maintenance contracts by existing customers for additional maintenance periods in order to gain access to product upgrades and MKS support services. In Q208, the Company continued to enjoy a high maintenance contract renewal rate, with over 90% of the total value of expiring annual enterprise ALM customer maintenance contracts being renewed on an annual basis. The Company enjoys a higher renewal rate on installations of its products with its large accounts compared to smaller accounts. The increasing value of the Euro and Pound relative to the US dollar had a modestly positive impact on maintenance revenue.

Interoperability Segment

The MKS Interoperability segment encompasses products, namely MKS Toolkit[®], that 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 profitability and cash flow to fund the growth segments of MKS business.

The Interoperability segment revenues declined 5% in Q208 compared to Q207 and 8% in the six months ended October 31, 2007 compared to the same period in the prior fiscal year.

License revenue decreased 8% in Q208 compared to Q207, and decreased 13% for the six months ended October 31, 2007 compared to the same period in fiscal 2007. The general maturity of the segment has resulted in stability of licensing fees, with competitive and market conditions contributing to the overall expected decline in license revenue. Over the long term and consistent with the maturity of this market, the Company continues to expect that revenues will decline in its Interoperability segment.

Maintenance revenue remained constant in Q208 compared to Q207 and the year to date periods, with decreases of less than 1% for each period. This is attributable to steady maintenance renewals over the past fiscal year as many customers continue to rely on having access to the latest versions and updates to the Company's IO products to remain current with the changes to existing operating system environments. Maintenance revenue is expected to decline in the future in correlation with the anticipated decline in licensing revenue referred to above.

There was minimal service revenue from this segment in both Q208 and Q207 and the corresponding year to date periods. The Interoperability products generally do not require consulting on implementation, and the Company does not expect to generate service revenue on a quarter-by-quarter basis.

Operating Income

(tabular amounts in thousands)

	Three Months Ended October 31			Six Months Ended October 31		
	2007	2006	% Change	2007	2006	% Change
Revenue						
ALM segment	\$ 11,865	\$ 9,650	23%	\$ 23,579	\$ 20,155	17%
Interoperability segment	1,763	1,859	-5%	3,656	3,973	-8%
	13,628	11,509	18%	27,235	24,128	13%
Operating costs						
ALM segment	11,773	11,261	5%	24,320	23,082	5%
Interoperability segment	1,368	1,406	-3%	2,754	2,822	-2%
	13,141	12,667	4%	27,074	25,904	5%
Operating income (loss)						
ALM segment	92	(1,611)	-106%	(741)	(2,927)	-75%
Interoperability segment	395	453	-13%	902	1,151	-22%
	\$ 487	\$ (1,158)	-142%	\$ 161	\$ (1,776)	-109%

Consolidated income (loss) from operations was 1% of total revenue in Q208 compared with (6)% in Q207. Operating expenses were \$13.1 million in Q208, up from \$12.7 million in Q207, a 4% increase. For the six months ended October 31, 2007, the operating margin was (0)% compared with (5)% in the same period in fiscal 2007, with operating costs increasing 5% during that period. Increased costs in the ALM segment this quarter were impacted by the strengthening Canadian dollar, Pound Sterling and Euro against the US dollar during Q208 versus Q207, which accounted for approximately \$0.6 million (\$1.0 million year to date) of the total cost increase.

Costs increased in the ALM services organization to increase the Company's capacity and meet the increasing demand for services from its customers and due to the impact of the global currency markets where the depreciation of the US dollar to other world currencies has increased the Company's cost base.

The sharply increased value of the Canadian dollar relative to the US dollar during Q2 '08 affected the areas containing a significant number of the Company's Canadian employees, most predominantly the research and development, marketing and administration costs.

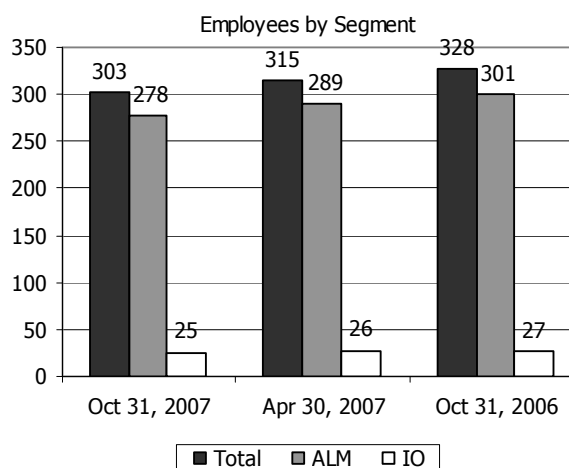
Cost of Product and Support

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.

The decreases in percentage of product and support costs for the quarter and on a year to date basis, were primarily driven by a decrease in third party royalty costs related to the Company's license revenue in the ALM segment in fiscal 2008. Current versions of the Company's ALM product no longer contain certain 3rd party software components which carried significant royalty costs in prior versions.

The product and support cost reduction was offset by an increase in the support staff required to meet the demand of the Company's growing installed customer base. Average support headcount for Q208 increased by 4 compared with Q207 to a total of 34.

On a consolidated basis, cost of product and support decreased 1% in Q208 compared to Q207, and decreased 19% as a percentage of license revenue in Q208 compared to a decrease of 22% in Q207. The reductions were net of cost increases stemming from the higher value of Canadian currency. For the six months ended October 31, 2007, the cost of product and support decreased 2% compared with the same period in fiscal 2007, and decreased as a percentage of license revenue at 18% in the six months ended October 31, 2007 compared to 19% in the same period in fiscal 2007.



Cost of Service

Cost of service for Q208 increased 25% from Q207. The Company achieved a 32% margin on service revenue in Q208 compared with a 28% margin in Q207. The margin increased from the first quarter of fiscal 2008 due to improved utilization of services personnel. Cost of service for the six months ended October 31, 2007 increased 21% from the same period in fiscal 2007 with a margin on service revenue of 26% in the six months ended October 31, 2007 compared with a margin of 24% in the same period in fiscal 2007.

Costs increased in fiscal 2008 due to the increased use of third party consultants to assist in the delivery of services sold. In Q208, third party consultants' costs increased \$0.2 million compared with Q207 and for the six months ended October 31, 2007 these costs increased \$0.5 million compared to the same period in fiscal 2007. Average headcount for Q208 remained consistent with Q207 as the increased service capacity was provided by third party consultants.

Sales and Marketing

Sales and marketing expenses remained constant in Q208 at \$5.6 million, compared to Q207. For the six months ended October 31, 2007, sales and marketing expenses decreased by 1% to \$11.8 million compared to \$11.9 million in the same period in fiscal 2007. Average sales headcount declined by 18 employees from Q207 to Q208. These cost savings were offset by higher external consultant charges in addition to higher variable pay costs during the period due to the increased productivity of the remaining sales force and an increase in costs due to the higher average values of the Pound and the Euro in the amount of \$0.2 million. Marketing costs remained consistent over both periods. As a percentage of revenue, sales and marketing expenses decreased from 49% in Q207 to 47% in Q208. For the six months ended October 31, 2007, sales and marketing expenses represented 43% of revenue compared to 49% in the same period in fiscal 2007.

Research and Development

Research and development expenses for Q208 increased 9%, or \$0.3 million, compared with Q207. For the six months ended October 31, 2007 research and development expenses increased 16%, or \$0.9 million, compared with the same period in fiscal 2007. Average headcount for the quarter decreased 4 from Q207 to Q208. The reduction in cost as a result of reduced headcount in the quarter was more than offset by the higher Canadian dollar. Since a significant amount of the Company's research and development takes place in Canada, the effect of the strengthening Canadian dollar accounted for \$0.2 million of the \$0.3 million increase. As the Company continues to expand its customer base, increased spending in the ALM segment on research and development will be essential to maintain and further expand on its products. As a percentage of total revenue, research and development costs declined from 25% in Q207 to 23% in Q208. For the six months ended October 31, 2007, research and development expenses increased to 24% of total revenue, from 23% in the same period in fiscal 2007. Research and development costs for the IO segment remained constant in both Q208 and the six months ended October 31, 2007 compared with the same periods in fiscal 2007.

General and Administrative

General and administrative expenses remained relatively constant in Q208 and the six months ended October 31, 2007 compared with the same periods in fiscal 2007. During Q208, the higher Canadian dollar versus the US dollar increased costs by \$0.2 million compared to Q207, which was offset by a \$0.3 million foreign exchange gain as a result of the cash balances on hand at October 31, 2007. Headcount for the Company's general and administrative structure remained relatively consistent in Q208 compared with Q207, with an average headcount decrease of two. General and administrative expenses declined to approximately 13% of total revenue in both Q208 and the six months ended October 31, 2007 as compared with approximately 15% in the same periods in fiscal 2007, as the Company continued to gain efficiencies in its general and administrative structure by maintaining a consistent overhead structure while increasing total revenue.

Interest Income

Interest income was generated from short-term investment grade interest-bearing securities. Lower average interest rates in Q208 and the six months ended October 31, 2007 than in previous periods resulted in lower interest income.

Income Taxes

In Q208 and the six months ended October 31, 2007, the Company recorded a non-cash deferred income tax expense of \$0.5 million and \$0.7 million, respectively. As a deferred tax expense is recorded only in those jurisdictions where a tax asset has been recognized, the tax expense recorded is higher relative to pretax income as no benefit is recognized for losses generated in jurisdictions where no tax asset has been recognized.

The Company has reviewed the valuation allowance on the deferred tax asset and has determined that it is appropriate. The Company's deferred tax assets will be utilized to offset taxable income, mainly in Canada and the United States, in the future. 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 the deferred tax asset recorded in the financial statements will be realized. As factors change in the future, this estimate could change in the near term as estimated future taxable income in each legal entity changes. Refer to note 3 in the audited consolidated financial statements of the Company for the year ended April 30, 2007 for a summary of tax losses available and a summary of the deferred tax asset to which a valuation allowance still applies.

In addition, the Company recorded the benefit of a refundable Investment Tax Credit during the quarter in the amount of \$0.2 million for the six months ended October 31, 2007 compared to \$0.3 million in the same period in fiscal 2007. This amount reduced the Company's current tax expense and is reflected as a reduction of the income tax provision.

Liquidity and Capital Resources

The Company's cash balance as at October 31, 2007 decreased by \$5.4 million to \$9.9 million compared to \$15.3 million at April 30, 2007 due primarily to cash utilized in operations as well as expenditures in investing and financing activities. On a cash basis, the Company generated \$1.3 million of cash from operations in Q208 compared with cash utilized in operations of \$0.2 million in Q207 before the impact of the change in working capital items. The Q208 cash generated from operations was more than offset by an investment in working capital of \$2.1 million, most notably in accounts receivable and deferred revenue, as working capital balances increased towards historical levels.

Operating Activities

The Company used \$0.8 million of cash from operating activities in Q208 compared with \$0.9 million generated from operations in Q207. Days sales outstanding in accounts receivable at October 31, 2007 were 63 days compared to 61 and 44 days at October 31, 2006 and April 30, 2007, respectively. The increase in days sales outstanding from Q207 to Q208 is primarily attributable to the timing of the transactions during the quarter. As the Company typically renews approximately 63% of its maintenance contracts in the last two quarters of each fiscal year, the Company expects the trend of receivable balances related to maintenance renewals to be higher in the last two quarters of the fiscal year. In keeping with this trend, deferred revenue decreased by \$0.7 million in Q208 compared to Q207 due to the timing of maintenance renewals.

Investing Activities

Purchases of fixed assets and intangibles amounted to \$0.2 million in Q208 compared with \$0.6 million in Q207. Capital spending consists primarily of 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 has adopted a dividend policy to declare quarterly dividends of \$0.02 per share on its common shares, resulting in an aggregate dividend of \$1.0 million being paid during Q208 and \$2.0 million being paid in the current fiscal year to date. The Company's policy is to pay a quarterly dividend, so long as the payment of the dividend does not impair the Company's financial position.

The Company received \$0.1 million during Q208 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 balances generated by operations and working capital. An additional source of liquidity over the next three years is anticipated to come from the Company's employee stock option plans. Due to the maturity of these plans and the pending expiry over the next three years of a significant number of options having exercise prices below the current market price for the Company's common shares, the Company believes that stock option exercises may provide additional cash from financing activities to the Company during this period. The Company had cash and cash equivalents totaling \$9.9 million at October 31, 2007, compared with \$14.7 million at October 31, 2006.

The Company believes that, based on current estimates, its current cash balances will be sufficient to meet its working capital and capital expenditure requirements for the next twelve month period. 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 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, which would reduce the likelihood that outstanding options to purchase the Company's common shares will be exercised over the next three years; 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 relative strength of 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.

<i>(tabular amounts in thousands)</i>	Fiscal year ended April 30						
	2008	2009	2010	2011	2012	Thereafter	Total
Operating lease obligations	\$ 1,060	\$ 1,831	\$ 1,675	\$ 573	\$ 44	\$ -	\$ 5,183
Purchase obligations	1,045	90	-	-	-	-	1,135
Total	\$ 2,105	\$ 1,921	\$ 1,675	\$ 573	\$ 44	\$ -	\$ 6,318

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 2008

MKS expects that ALM license revenue will improve in fiscal 2008 from the levels of fiscal 2007, which combined with continued increases in maintenance and services revenue will result in higher total revenue for the fiscal year compared to fiscal 2007, more than offsetting expected declines in Interoperability revenue.

MKS is managing its cost base to sustain current sales and marketing capacity and is making further investments in sales resources only to the extent that profitability can be expected throughout its planning horizon. MKS expects full year profitability for fiscal 2008 based on increasing revenue and carefully managed costs. For the fiscal year 2008, the significant volatility in MKS operating currencies has represented a substantial planning challenge.

MKS expects to maintain more than sufficient cash balances through fiscal 2008 through the combination of expected improvements in net income, reduced capital expenditures over those in fiscal 2007 and an expected continuation of lower overall receivables days net of current dividend policy. The Company expects that seasonal factors will cause inflows of cash in the second half of the fiscal year as the Company's annual maintenance renewals are more heavily weighted to the last two quarters of the fiscal year.

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. That tax rate may be higher than the average rate the Company expects to pay in the future across all jurisdictions. The Company expects its long term tax rate to be approximately 35% to 36%. 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.

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 FIN 48, our 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 October 31, 2007, the Company had accrued \$nil related to the payment of such interest and penalties.

Impact of Recent 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, which is the year ended April 30, 2009 for us. FASB 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The Company is currently assessing the impact the adoption of this pronouncement will have 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, 2007 for more information about the accounting policies of the Company.

Related Party Transactions

During the first and second quarters of fiscal 2008, the Company did not engage in any transactions involving related parties.

Controls and Procedures

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 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 annual regulatory filings. As of October 31, 2007, the Company carried out, under the supervision of the CEO and CFO, an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined in MI 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 Q208 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Critical Accounting Policies and Estimates

The consolidated financial statements of the Company for the three and six months ended October 31, 2007 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 more significant estimates, 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 past 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 which 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 3 in the audited annual financial statements of the Company, a valuation reserve has been taken against a portion of the deferred tax assets of the Company, impacting 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) we estimate the fair value of our 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. We estimate the volatility of the share price based on the historical trading information of the Company. We estimate the risk-free interest rate based on US Treasury rates with a yield equal to the expected life of the option. We base our estimate of the expected life of the option based on historical Company data and the period for which our options can be exercised. We assess our forfeiture rate through an analysis of the turnover of our employees since we 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.

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 service revenues; the introduction of new products and product enhancements by the Company or its competitors; changes in customer budgets for software and services; changes in the Company's pricing policies or those of its competitors; the geographical mix of the Company's sales and 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; the Company's ability to control costs; general economic conditions; competitive conditions in the ALM and Interoperability markets; and the ability to attract and retain qualified personnel. 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 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.

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 further 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 does not currently undertake any exchange rate hedging activities.

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. Fluctuations 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 impacting revenue and profitability of foreign operations.

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 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., Telelogic North America, 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 entails 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 has hired a number of key managers within the past three years and 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. Approximately 35% 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 adversely impact the revenue, profitability and liquidity of the Company.

Economic Uncertainty

The majority of the Company's revenue has been, and is expected to continue to be, derived from customers in North America. Trends in general economic activity in the United States impact spending by corporations in the area of information technology, which includes the ALM and Interoperability markets.

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 favourable 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.

Limited Financial Resources

The Company believes that expected cash flow from operations combined with existing cash and cash equivalents will be sufficient to meet the Company’s cash requirements for the next twelve months. The Company does not currently have any specific plans for external investments, but may make modest strategic investments in related products or acquire customer bases, which could result in a utilization of cash balances or create a need for external financing. The Company may utilize a portion of its cash balances or issue additional share capital or debt to finance such investments. Failure to obtain such financing could result in the delay or abandonment of some or all of the Company’s business plans, which could have a material adverse effect on its business, results of operations, liquidity and financial condition.

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 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.