

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

	October 31 2009	April 30 2009
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 19,009	\$ 17,098
Accounts receivable, net of allowances for doubtful accounts of \$117 (April 30, 2009 – \$89)	7,587	7,404
Future income taxes	2,496	2,496
Deferred gain on forward contracts	367	83
Prepaid expenses and other assets	1,308	1,152
Total current assets	30,767	28,233
Fixed assets (note 3)	4,002	4,252
Intangible assets (note 3)	26	69
Goodwill (note 3)	4,494	4,494
Future income taxes	802	2,125
Total assets	\$ 40,091	\$ 39,173
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 980	\$ 1,083
Accrued liabilities	2,905	2,566
Income taxes payable	120	657
Deferred revenue	14,526	16,170
Total current liabilities	18,531	20,476
Shareholders' equity:		
Share capital (note 6)	65,391	64,399
Accumulated other comprehensive loss	(268)	(1,131)
Accumulated deficit	(43,563)	(44,571)
Total shareholders' equity	21,560	18,697
Total liabilities and shareholders' equity	\$ 40,091	\$ 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>		<i>Six months ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
Revenue:				
License	\$ 3,921	\$ 6,425	\$ 9,545	\$ 12,581
Maintenance	7,797	7,051	15,212	14,086
Service	2,959	2,792	5,660	4,966
	14,677	16,268	30,417	31,633
Operating expenses:				
Cost of product and support	1,141	1,197	2,370	2,437
Cost of service	1,831	1,955	3,562	3,743
Sales and marketing	4,770	5,394	9,987	11,256
Research and development (note 4)	2,711	2,927	5,840	6,036
General and administrative	1,982	1,867	3,906	3,830
Foreign exchange (gain) loss	(695)	519	(736)	553
Stock-based compensation (note 6)	175	408	351	579
	11,915	14,267	25,280	28,434
Operating income	2,762	2,001	5,137	3,199
Interest income, net	3	29	7	61
Income before income taxes	2,765	2,030	5,144	3,260
Income tax provision:				
Current	143	(160)	234	126
Deferred	500	837	1,381	1,162
Income tax provision	643	677	1,615	1,288
Net income	\$ 2,122	\$ 1,353	\$ 3,529	\$ 1,972
Earnings per share (note 7):				
Basic	\$ 0.21	\$ 0.13	\$ 0.35	\$ 0.19
Diluted	\$ 0.21	\$ 0.13	\$ 0.35	\$ 0.19
Weighted average number of shares outstanding	10,085	10,146	10,060	10,191
Diluted weighted average number of shares outstanding	10,210	10,254	10,164	10,303

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	76	443	–	–	–	443
Stock-based compensation	–	–	579	–	–	579
Shares repurchased for cancellation	(434)	(2,627)	–	–	(907)	(3,534)
Dividends paid	–	–	–	–	(2,040)	(2,040)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	–	–	–	(389)	–	(389)
Unrealized loss on cash flow hedges	–	–	–	(1,541)	–	(1,541)
Net income	–	–	–	–	1,972	1,972
Comprehensive income	–	–	–	(1,930)	1,972	42
Balances at October 31, 2008	9,927	\$ 60,215	\$ 3,686	\$ (2,879)	\$ (44,893)	\$ 16,129
	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	118	641	–	–	–	641
Stock-based compensation	–	–	351	–	–	351
Dividends paid	–	–	–	–	(2,521)	(2,521)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	–	–	–	579	–	579
Unrealized gain on cash flow hedges	–	–	–	284	–	284
Net income	–	–	–	–	3,529	3,529
Comprehensive income	–	–	–	863	3,529	4,392
Balances at October 31, 2009	10,096	\$ 61,207	\$ 4,184	\$ (268)	\$ (43,563)	\$ 21,560

See accompanying Notes to Consolidated Financial Statements

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
Cash flows provided by (used for) operating activities:				
Net income	\$ 2,122	\$ 1,353	\$ 3,529	\$ 1,972
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Depreciation of fixed assets	346	345	683	661
Amortization of intangible assets	21	21	43	43
Stock-based compensation	175	408	351	579
Deferred income taxes	500	837	1,381	1,162
Loss on disposal of fixed assets	9	16	74	41
Non-cash foreign exchange gains	(511)	–	(511)	–
Change in operating assets and liabilities:				
Accounts receivable	(1,206)	603	(183)	4,433
Prepaid expenses and other assets	432	572	(156)	258
Accounts payable	215	341	(103)	(512)
Accrued liabilities	(7)	(461)	339	(2,053)
Income taxes payable	(608)	(406)	(537)	(158)
Deferred revenue	(1,810)	(604)	(1,644)	(2,721)
Net cash provided by (used for) operating activities	(322)	3,025	3,266	3,705
Cash flows (used for) investing activities:				
Purchase of fixed assets	(173)	(497)	(452)	(700)
Net cash (used for) investing activities	(173)	(497)	(452)	(700)
Cash flows provided by (used for) financing activities:				
Proceeds on issuance of common shares	136	160	641	443
Cash paid for shares repurchased for cancellation	–	(2,478)	–	(3,534)
Payment of dividends	(1,262)	(1,007)	(2,521)	(2,040)
Net cash (used for) financing activities	(1,126)	(3,325)	(1,880)	(5,131)
Effect of exchange rate changes on cash and cash equivalents	901	(97)	977	(192)
Change in cash and cash equivalents balances	(720)	(894)	1,911	(2,318)
Cash and cash equivalents, beginning of period	19,729	11,509	17,098	12,933
Cash and cash equivalents, end of period	\$ 19,009	\$ 10,615	\$ 19,009	\$ 10,615
Supplemental cash flow information:				
Interest received	\$ 3	\$ 29	\$ 7	\$ 61
Interest paid	–	–	–	–
Income taxes paid	746	–	746	–

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 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 October 2011. These hedges are accounted for as designated cash flow hedges. At October 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 October 31, 2009, the Company has recorded an unrealized gain in Other Comprehensive Income (Loss) of \$367. 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 October 31, 2009 is \$2,040 (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:

	October 31 2009	April 30 2009
Computer equipment	\$ 9,928	\$ 9,978
Applications software	3,221	3,192
Office furniture and equipment	1,909	1,965
Leasehold improvements	2,006	1,972
	17,064	17,107
Accumulated depreciation	(13,062)	(12,855)
	<u>\$ 4,002</u>	<u>\$ 4,252</u>

b) Intangible assets:

	October 31 2009	April 30 2009
Purchased software and technology, gross	\$ 6,435	\$ 6,435
Other intangible assets, gross	297	297
Accumulated amortization	(6,706)	(6,663)
Intangible assets, net	<u>\$ 26</u>	<u>\$ 69</u>

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	<u>\$ 4,494</u>

MKS Inc.
Notes to Consolidated Financial Statements

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4. Research and development:

Research and development expenditures:

	<i>For the three months ended</i>		<i>For the six months ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
Gross research and development	\$ 2,749	\$ 2,970	\$ 5,934	\$ 6,128
Less: Investment tax credits realized	(38)	(43)	(94)	(92)
Net research and development	\$ 2,711	\$ 2,927	\$ 5,840	\$ 6,036

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 data, earnings per share amounts and stock option data for the current and prior comparative periods have been adjusted to reflect this share consolidation.

	October 31 2009	April 30 2009
Common shares:		
Authorized – unlimited		
Issued and outstanding – 10,096		
(April 30, 2009 – 9,978), no par value	\$ 61,207	\$ 60,566
Additional paid in capital	4,184	3,833
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 65,391	\$ 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 six months ended October 31, 2009 and the year ended April 30, 2009 is presented below:

	Six Months Ended October 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	(99)	6.14	(96)	6.50
Forfeited	(13)	7.24	(56)	9.75
Outstanding, end of period	1,357	Cdn\$8.45	1,289	Cdn\$8.33
Options exercisable, end of period	958	Cdn\$8.55	957	Cdn\$8.25

c) Summary of the balances of options issued under the plans at October 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	30	1.9 years	Cdn\$4.80	30	Cdn\$4.80
5.00 – 6.85	387	2.2	6.58	382	6.58
7.05 – 9.90	735	4.6	8.36	362	8.79
9.95 – 13.75	205	3.2	12.85	184	12.75
	1,357	3.6 years	Cdn\$8.45	958	Cdn\$8.55

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>		<i>For the six months ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
<i>For the three months ended</i>				
Cost of product and support	\$ 3	4	\$ 5	\$ 7
Cost of service	5	9	11	15
Sales and marketing	47	83	97	141
Research and development	36	52	73	90
General and administrative	84	260	165	326
	\$ 175	408	\$ 351	\$ 579

e) Employee Share Purchase Plan:

During the six months ended October 31, 2009, 41 shares (2008 – 32) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$119 (2008 - \$44). A stock-based compensation charge of \$21 was charged related to the discount provided to ESPP participants during the six months ended October 31, 2009 (2008 - \$7).

MKS Inc.
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6. Earnings per share:

As described in note 5, a 5-for-1 share consolidation was implemented effective at the opening of trading on July 27, 2009. All share data, 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>	<i>For the three months ended</i>		<i>For the six months ended</i>	
	October 31 2009	October 31 2008	October 31 2009	October 31 2008
Net income	2,122	1,353	\$ 3,529	\$ 1,972
Weighted average number of shares outstanding	10,085	10,146	10,060	10,191
Incremental shares from assumed conversion of stock options & warrants	125	108	104	112
Adjusted weighted average number of shares outstanding	10,210	10,254	10,164	10,303
Earnings per share:				
Basic	0.21	\$ 0.13	\$ 0.35	\$ 0.19
Diluted	0.21	\$ 0.13	\$ 0.35	\$ 0.19

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 17% of accounts receivable at October 31, 2009. Also at October 31, 2009, 3% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$117 for potential credit risk in accounts receivable at October 31, 2009, up \$28 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 six months ended October 31, 2009 of \$29 (2008 – \$12), 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 \$19,009 and had positive working capital of \$12,236 at October 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.

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

8. Segmented information:

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

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

The following schedule provides required segmented information disclosure.

<i>Three months ended</i>	October 31, 2009			October 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 8,233	\$ 1,286	\$ 9,519	\$ 8,562	\$ 1,541	\$ 10,103
Europe & Other	4,756	402	5,158	5,643	522	6,165
Total revenue	\$ 12,989	\$ 1,688	\$ 14,677	\$ 14,205	\$ 2,063	\$ 16,268

Revenue:						
License	\$ 3,028	\$ 893	\$ 3,921	\$ 5,057	\$ 1,368	\$ 6,425
Maintenance	7,002	795	7,797	6,356	695	7,051
Service	2,959	—	2,959	2,792	—	2,792
Total revenue	\$ 12,989	\$ 1,688	\$ 14,677	\$ 14,205	\$ 2,063	\$ 16,268

Income:						
Operating income	\$ 2,379	\$ 383	\$ 2,762	\$ 1,474	\$ 527	\$ 2,001
Interest and income taxes			(640)			(648)
Net income			\$ 2,122			\$ 1,353

<i>Six months ended</i>	October 31, 2009			October 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 18,330	\$ 2,235	\$ 20,565	\$ 16,078	\$ 3,010	\$ 19,088
Europe & Other	9,032	820	9,852	11,570	975	12,545
Total revenue	\$ 27,362	\$ 3,055	\$ 30,417	\$ 27,648	\$ 3,985	\$ 31,633

Revenue:						
License	\$ 8,020	\$ 1,525	\$ 9,545	\$ 10,026	\$ 2,555	\$ 12,581
Maintenance	13,682	1,530	15,212	12,656	1,430	14,086
Service	5,660	—	5,660	4,966	—	4,966
Total revenue	\$ 27,362	\$ 3,055	\$ 30,417	\$ 27,648	\$ 3,985	\$ 31,633

Income:						
Operating income	\$ 4,667	\$ 470	\$ 5,137	\$ 2,161	\$ 1,038	\$ 3,199
Interest and income taxes			(1,608)			(1,227)
Net income			\$ 3,529			\$ 1,972

Purchase of fixed assets and intangible assets	\$ 452	\$ —	\$ 452	\$ 687	\$ 13	\$ 700
Depreciation and amortization of fixed assets and intangible assets	\$ 710	\$ 16	\$ 726	\$ 689	\$ 15	\$ 704

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

	October 31, 2009			April 30, 2009		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 19,163	\$ -	\$ 19,163	\$ 12,888	\$ -	\$ 12,888
Other	6,110	14,818	20,928	12,832	13,453	26,285
Total assets	\$ 25,273	\$ 14,818	\$ 40,091	\$ 25,720	\$ 13,453	\$ 39,173
Fixed assets, intangible assets and goodwill	\$ 6,346	\$ 2,176	\$ 8,522	\$ 6,611	\$ 2,204	\$ 8,815

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

During the three and six months ended October 31, 2009, one customer of the Company accounted for 11% and 17% of revenue, respectively.

During the three and six months ended October 31, 2008, no customers accounted for 10% or more of revenue.

At October 31, 2009, one customer accounted for 17% of accounts receivable. At April 30, 2009, no customer accounted for 10% or more of accounts receivable.