

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

	January 31 2009	April 30 2008
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 16,254	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$180 (April 30, 2008 – \$217)	8,776	16,054
Future income taxes	2,496	2,496
Other	1,302	1,539
Total current assets	28,828	33,022
Capital assets (note 3)	4,295	4,530
Intangible assets (note 3)	90	155
Goodwill (note 3)	4,494	4,494
Future income taxes	647	2,133
Total assets	\$ 38,354	\$ 44,334
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,407	\$ 2,430
Accrued liabilities	2,708	5,149
Income taxes payable	367	656
Deferred revenue	16,620	15,460
Total current liabilities	22,102	23,695
Shareholders' equity:		
Share capital (note 4)	64,114	65,506
Accumulated other comprehensive loss	(2,299)	(949)
Accumulated deficit	(45,563)	(43,918)
Total shareholders' equity	16,252	20,639
Total liabilities and shareholders' equity	\$ 38,354	\$ 44,334

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended January 31		Nine Months Ended January 31	
	2009	2008	2009	2008
Revenue:				
License	\$ 3,702	\$ 4,120	\$ 16,283	\$ 15,050
Maintenance	6,980	6,584	21,066	19,191
Service	2,521	2,086	7,487	5,784
	13,203	12,790	44,836	40,025
Operating expenses:				
Cost of product and support	1,242	1,122	3,679	3,108
Cost of service	1,628	1,478	5,371	4,232
Sales and marketing	4,782	5,486	16,038	16,897
Research and development (note 5)	3,103	3,364	9,139	10,134
General and administrative	2,022	1,971	5,852	5,928
Foreign exchange loss (gain)	(213)	(27)	340	(330)
Stock based compensation (note 4 (d))	142	202	721	505
	12,706	13,596	41,140	40,474
Income from operations	497	(806)	3,696	(449)
Interest income, net	11	44	72	255
Income before income taxes	508	(762)	3,775	(194)
Income tax provision (recovery):				
Current	(43)	–	83	–
Future	226	(8)	1,388	683
Income tax provision (recovery)	183	(8)	1,471	683
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Earnings (loss) per share (note 7):				
Basic and diluted	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)
Basic weighted average number of shares outstanding	49,667	50,751	50,526	50,652
Diluted weighted average number of shares outstanding	49,698	50,751	50,859	50,652

See accompanying Notes to Consolidated Financial Statements

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

	Common Shares		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances at April 30, 2007	50,570	61,418	2,517	(726)	(43,690)	19,519
Issuance of common shares	326	390		–	–	390
Stock-based compensation	–	–	505	–	–	505
Dividends paid	–	–	–	–	(3,040)	(3,040)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(123)	–	(123)
Net loss	–	–	–	–	(877)	(877)
Comprehensive loss	–	–	–	(123)	(877)	(1,000)
Balances at January 31, 2008	50,896	\$ 61,808	\$ 3,022	\$ (849)	\$ (47,607)	\$ 16,374

	Common Shares		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balances at April 30, 2008	51,427	62,399	3,107	(949)	(43,918)	20,639
Issuance of common shares	475	514	–	–	–	514
Stock-based compensation	–	–	721	–	–	721
Shares repurchased for cancellation	(2,172)	(2,627)	–	–	(907)	(3,534)
Dividends paid	–	–	–	–	(3,035)	(3,035)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(391)	–	(391)
Unrealized gain (loss) on cash flow hedges	–	–	–	(959)	–	(959)
Net income	–	–	–	–	2,297	2,297
Comprehensive income	–	–	–	(1,350)	2,297	947
Balances at January 31, 2009	49,730	\$ 60,286	\$ 3,828	\$ (2,299)	\$ (45,563)	\$ 16,252

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

(U.S. dollars, thousands, unaudited)

	Three Months Ended January 31		Nine Months Ended January 31	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation of capital assets	358	368	1,019	994
Amortization of intangible assets	22	22	65	64
Stock based compensation	142	202	721	505
Future income taxes	226	(8)	1,388	683
Loss on disposal of capital assets	21	30	62	73
Change in operating assets and liabilities:				
Accounts receivable	2,845	289	7,278	(3,174)
Other	(21)	(97)	237	(114)
Accounts payable	(1,052)	(454)	(23)	(217)
Accrued liabilities	(388)	(549)	(2,441)	163
Income taxes payable	(131)	238	(289)	41
Deferred revenue	3,881	2,565	1,160	1,045
Net cash provided by (used for) operating activities	6,228	1,852	11,474	(814)
Cash flows used for investing activities:				
Purchase of capital assets	(235)	(401)	(935)	(1,003)
Net cash used for investing activities	(235)	(401)	(935)	(1,003)
Cash flows used for financing activities:				
Proceeds on issuance of common shares	71	265	514	390
Cash paid for shares repurchased for cancellation	–	–	(3,534)	–
Dividends paid	(995)	(1,015)	(3,035)	(3,040)
Net cash used for financing activities	(924)	(750)	(6,055)	(2,650)
Effect of exchange rate changes on cash and cash equivalents	570	53	(1,163)	(159)
Change in cash and cash equivalents balances	5,639	754	3,321	(4,626)
Cash and cash equivalents, beginning of period	10,615	9,878	12,933	15,258
Cash and cash equivalents, end of period	\$ 16,254	\$ 10,632	\$ 16,254	\$ 10,632
Supplemental cash flow information:				
Interest received	\$ 11	\$ 44	\$ 72	\$ 255
Income taxes paid	52	–	52	–
Income taxes refund received	–	242	–	242

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

MKS Inc. ("MKS" or the "Company") is a provider of software products and services in the application development and deployment (software "Application Lifecycle Management" or "ALM", formerly "Software Configuration Management") and cross-platform development and systems administration ("Interoperability" or "IO") markets. The Company's products are designed to increase development team productivity while improving the quality, reliability and availability of business critical software as it is developed and maintained, and to significantly cut 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 January 31, 2009 and for the three and nine month periods ended January 31, 2009 and 2008 are unaudited and have been prepared in accordance with generally accepted accounting principles in Canada for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2008 annual financial 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 Company's annual consolidated financial statements and notes thereto for the year ended April 30, 2008.

b. Financial instruments

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 2009. These hedges are accounted for as designated cash flow hedges. At January 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 January 31, 2009 the Company has recorded an unrealized loss in Other Comprehensive Income (Loss) and accounts payable of \$959. 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 the current year financial statement presentation.

2. Cash and cash equivalents:

Included in the balance of cash and cash equivalents at January 31, 2009 is \$1,883 (April 30, 2008 - \$nil) of cash and cash equivalents held as a security deposit by the counterparty to forward foreign exchange contracts entered into by the Company.

3. Fixed assets, intangible assets and goodwill:

a. Fixed assets:

	January 31 2009	April 30 2008
Computer equipment	\$ 9,873	\$ 9,736
Applications software	3,164	2,901
Office furniture and equipment	1,949	2,053
Leasehold improvements	1,809	1,888
	16,795	16,578
Accumulated depreciation	(12,500)	(12,048)
	\$ 4,295	\$ 4,530

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

b. Intangible assets:

	January 31 2009	April 30 2008
Purchased software and technology, gross	\$ 6,712	\$ 6,712
Other intangible assets, gross	2,801	2,801
Accumulated amortization	(9,423)	(9,358)
Intangible assets, net	\$ 90	\$ 155

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

c. Goodwill:

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

Application Lifecycle Management	\$ 2,424
Interoperability	2,070
Goodwill	\$ 4,494

4. Shareholders' equity:

a. Share capital:

	January 31 2009	April 30 2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 49,730		
(April 30, 2008 – 51,427), no par value	\$ 60,286	\$ 62,399
Additional paid in capital	3,828	3,107
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 64,114	\$ 65,506

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.

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

b. Continuity of options issued under the Company's stock option plans:

A summary of the status of the plans as of the nine months ended January 31, 2009 and the year ended April 30, 2008 is presented below:

	Nine Months Ended January 31, 2009		Year Ended April 30, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,178	Cdn\$1.66	7,652	Cdn\$1.69
Granted	1,025	1.60	823	1.54
Exercised	(348)	1.33	(775)	1.30
Forfeited	(236)	1.99	(1,522)	1.90
Outstanding, end of period	6,619	Cdn\$1.66	6,178	Cdn\$1.66
Options exercisable, end of period	4,809	Cdn\$1.63	4,833	Cdn\$1.59

c. Summary of the balances of options issued under the plans at January 31, 2009:

Range of Exercise Prices (Cdn\$)	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (Cdn\$)	Number Exercisable	Weighted Average Exercise Price (Cdn\$)
\$ 0.60 – 0.96	163	2.5 years	\$ 0.95	163	\$0.95
1.00 – 1.37	2,586	2.3	1.29	2,552	1.30
1.41 – 1.98	2,841	4.6	1.70	1,313	1.82
2.07 – 2.75	1,029	3.9	2.57	781	2.53
	6,619	3.6 years	\$ 1.66	4,809	\$ 1.63

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

	Three months Ended January 31		Nine months Ended January 31	
	2009	2008	2009	2008
Cost of product and support	\$ 2	\$ 4	\$ 9	\$ 10
Cost of service	3	7	18	17
Sales and marketing	32	63	173	156
Research and development	27	47	117	111
General and administrative	78	81	404	211
	\$ 142	\$ 202	\$ 721	\$ 505

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the nine months ended January 31, 2009: risk free interest rate – 3% (January 31, 2008 – 4%), dividend yield – 6% (January 31, 2008 – 6%), expected lives of options – 5 years (January 31, 2008 – 5 years), expected volatility – 59% (January 31, 2008 – 69%) and expected forfeiture rate – 17% (January 31, 2008 – 17%). The fair value of options applicable to non-vested awards at January 31, 2009 was \$524 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.3 years.

e. Employee Share Purchase Plan:

During the nine months ended January 31, 2009, 126 shares (January 31, 2008 – 23 shares) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$115 (January 31, 2008 – \$41). A stock-based compensation charge of \$20 was charged related to the discount provided to ESPP participants during the nine months ended January 31, 2009 (January 31, 2008 – \$7).

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

5. Research and development expenditures:

	Three months Ended January 31		Nine months Ended January 31	
	2009	2008	2009	2008
Gross research and development expenditures	\$ 3,183	\$ 3,364	\$ 9,311	\$ 10,330
Less: Investment tax credits realized	(80)	–	(172)	(196)
Net research and development expenditures	\$ 3,103	\$ 3,364	\$ 9,139	\$ 10,134

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 research and development expenditures.

6. 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. No customers of the Company accounted for 10% or more of accounts receivable at January 31, 2009. Also at January 31, 2009, 11% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$180 for potential credit risk in accounts receivable at January 31, 2009, down \$37 from the balance at April 30, 2008.

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) represent 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 nine months ended January 31, 2009 of \$20 (January 31, 2008 – \$420), 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 \$16,254 and had positive working capital of \$5,614 at January 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 for the next twelve months.

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

7. Earnings (loss) per share:

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

	Three months Ended January 31		Nine months Ended January 31	
	2009	2008	2009	2008
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Basic weighted average number of shares outstanding	49,667	50,751	50,526	50,602
Incremental shares from assumed exercise of stock options	31	—	333	—
Diluted weighted average number of shares outstanding	49,698	50,751	50,859	50,602
Earnings (loss) per share:				
Basic	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)
Diluted	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)

For the three and nine months ended January 31, 2008, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for those periods and to do so would have been anti-dilutive. The number of potentially dilutive stock options excluded from the calculation of diluted loss per share was 111 and 373, for the three and nine months ended January 31, 2008, respectively.

8. Segmented information:

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

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

MKS Inc.
Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

The following schedule provides required segmented information disclosure.

	Three Months Ended January 31, 2009			Three Months Ended January 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 7,401	\$ 1,185	\$ 8,586	\$ 6,252	\$ 1,248	\$ 7,500
Europe & Other	4,165	452	4,617	4,771	519	5,290
Total revenue	\$ 11,566	\$ 1,637	\$ 13,203	\$ 11,023	\$ 1,767	\$ 12,790
Revenue:						
License	\$ 2,768	\$ 934	\$ 3,702	\$ 3,134	\$ 986	\$ 4,120
Maintenance	6,277	703	6,980	5,803	781	6,584
Service	2,521	—	2,521	2,086	—	2,086
Total revenue	\$ 11,566	\$ 1,637	\$ 13,203	\$ 11,023	\$ 1,767	\$ 12,790
Income:						
Operating income	\$ 189	\$ 308	\$ 497	\$ (1,201)	\$ 395	\$ (806)
Interest and income taxes			(172)			52
Net income			\$ 325			\$ (754)

	Nine Months Ended January 31, 2009			Nine Months Ended January 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 23,479	\$ 4,195	\$ 27,674	\$ 19,756	\$ 4,153	\$ 23,909
Europe & Other	15,735	1,427	17,162	14,846	1,270	16,116
Total revenue	\$ 39,214	\$ 5,622	\$ 44,836	\$ 34,602	\$ 5,423	\$ 40,025
Revenue:						
License	\$ 12,794	\$ 3,489	\$ 16,283	\$ 11,999	\$ 3,051	\$ 15,050
Maintenance	18,933	2,133	21,066	16,819	2,372	19,191
Service	7,487	—	7,487	5,784	—	5,784
Total revenue	\$ 39,214	\$ 5,622	\$ 44,836	\$ 34,602	\$ 5,423	\$ 40,025
Income (loss):						
Operating income (loss)	\$ 2,350	\$ 1,346	\$ 3,696	\$ (1,942)	\$ 1,297	\$ (645)
Interest and income taxes			(1,399)			(232)
Net income (loss)			\$ 2,297			\$ (877)
Purchase of fixed assets and intangible assets	\$ 922	\$ 13	\$ 935	\$ 1,003	\$ —	\$ 1,003
Depreciation and amortization of fixed assets and intangible assets	\$ 1,038	\$ 25	\$ 1,063	\$ 1,022	\$ 36	\$ 1,058

	January 31, 2009			April 30, 2008		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 13,619	\$ —	\$ 13,619	\$ 10,366	\$ —	\$ 10,366
Other	11,273	13,462	24,735	19,331	14,637	31,898
Total assets	\$ 24,892	\$ 13,462	\$ 38,354	\$ 29,697	\$ 14,637	\$ 42,264
Fixed assets, intangible assets and goodwill	\$ 6,666	\$ 2,213	\$ 8,879	\$ 6,954	\$ 2,225	\$ 7,109

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