

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

	January 31 2010	April 30 2009
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 22,142	\$ 17,098
Accounts receivable, net of allowances for doubtful accounts of \$118 (April 30, 2009 – \$89)	7,743	7,404
Future income taxes	2,496	2,496
Deferred gain on forward contracts	63	83
Prepaid expenses and other assets	1,329	1,152
Total current assets	33,773	28,233
Fixed assets (note 3)	3,889	4,252
Intangible assets (note 3)	17	69
Goodwill (note 3)	4,494	4,494
Future income taxes	282	2,125
Total assets	\$ 42,455	\$ 39,173
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 973	\$ 1,083
Accrued liabilities	3,287	2,566
Income taxes payable	407	657
Deferred revenue	16,698	16,170
Total current liabilities	21,365	20,476
Shareholders' equity:		
Share capital (note 6)	65,698	64,399
Accumulated other comprehensive loss	(633)	(1,131)
Accumulated deficit	(43,975)	(44,571)
Total shareholders' equity	21,090	18,697
Total liabilities and shareholders' equity	\$ 42,455	\$ 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>Nine months ended</i>	
	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Revenue:				
License	\$ 4,963	\$ 3,702	\$ 14,508	\$ 16,283
Maintenance	7,750	6,980	22,962	21,066
Service	2,599	2,521	8,259	7,487
	15,312	13,203	45,729	44,836
Operating expenses:				
Cost of product and support	1,433	1,242	3,803	3,679
Cost of service	1,865	1,628	5,427	5,371
Sales and marketing	4,976	4,782	14,963	16,038
Research and development (note 4)	2,974	3,103	8,814	9,139
General and administrative	2,145	2,022	6,051	5,852
Foreign exchange (gain) loss	16	(213)	(720)	340
Stock-based compensation (note 6)	153	142	504	721
	13,562	12,706	38,842	41,140
Operating income	1,750	497	6,887	3,696
Interest income, net	2	11	9	72
Income before income taxes	1,752	508	6,896	3,768
Income tax provision:				
Current	160	(43)	394	83
Deferred	486	226	1,867	1,388
Income tax provision	646	183	2,261	1,471
Net income	\$ 1,106	\$ 325	\$ 4,635	\$ 2,297
Earnings per share (note 7):				
Basic	\$ 0.11	\$ 0.03	\$ 0.46	\$ 0.23
Diluted	\$ 0.11	\$ 0.03	\$ 0.46	\$ 0.23
Weighted average number of shares outstanding	10,110	9,933	10,077	10,105
Diluted weighted average number of shares outstanding	10,240	9,940	10,189	10,172

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	95	514	—	—	—	514
Stock-based compensation	—	—	721	—	—	721
Shares repurchased for cancellation	(434)	(2,627)	—	—	(907)	(3,534)
Dividends paid	—	—	—	—	(3,035)	(3,035)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	—	—	—	(391)	—	(391)
Unrealized 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	9,946	\$ 60,286	\$ 3,828	\$ (2,299)	\$ (45,563)	\$ 16,252
	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	144	795	—	—	—	795
Stock-based compensation	—	—	504	—	—	504
Dividends paid	—	—	—	—	(4,039)	(4,039)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes (nil)	—	—	—	518	—	518
Unrealized gain on cash flow hedges	—	—	—	(20)	—	(20)
Net income	—	—	—	—	4,635	4,635
Comprehensive income	—	—	—	498	4,635	5,133
Balances at January 31, 2010	10,122	\$ 61,361	\$ 4,337	\$ (633)	\$ (43,975)	\$ 21,090

See accompanying Notes to Consolidated Financial Statements

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Cash flows provided by (used for) operating activities:				
Net income	\$ 1,106	\$ 325	\$ 4,635	\$ 2,297
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of fixed assets	355	358	1,038	1,019
Amortization of intangible assets	9	22	52	65
Stock-based compensation	153	142	504	721
Deferred income taxes	486	226	1,867	1,388
Loss on disposal of fixed assets	36	21	110	62
Non-cash foreign exchange gains	–	–	(511)	–
Change in operating assets and liabilities:				
Accounts receivable	(156)	2,845	(339)	7,278
Prepaid expenses and other assets	(21)	(21)	(177)	237
Accounts payable	(7)	(1,052)	(110)	(23)
Accrued liabilities	382	(388)	721	(2,441)
Income taxes payable	287	(131)	(250)	(289)
Deferred revenue	2,172	3,881	528	1,160
Net cash provided by operating activities	4,802	6,228	8,068	11,474
Cash flows (used for) investing activities:				
Purchase of fixed assets	(292)	(235)	(744)	(935)
Net cash (used for) investing activities	(292)	(235)	(744)	(935)
Cash flows provided by (used for) financing activities:				
Proceeds on issuance of common shares	154	71	795	514
Cash paid for shares repurchased for cancellation	–	–	–	(3,534)
Payment of dividends	(1,518)	(995)	(4,039)	(3,035)
Net cash (used for) financing activities	(1,364)	(924)	(3,244)	(6,055)
Effect of exchange rate changes on cash and cash equivalents	(13)	570	964	(1,163)
Change in cash and cash equivalents balances	3,133	5,639	5,044	3,321
Cash and cash equivalents, beginning of period	19,009	10,615	17,098	12,933
Cash and cash equivalents, end of period	\$ 22,142	\$ 16,254	\$ 22,142	\$ 16,254
Supplemental cash flow information:				
Interest received	\$ 2	\$ 11	\$ 9	\$ 72
Interest paid	–	–	–	–
Income taxes paid	67	52	813	52

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 January 31, 2010 and 2009 and for the three and nine month periods ended January 31, 2010 and 2009 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 January 2012. These hedges are accounted for as designated cash flow hedges. At January 31, 2010, 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, 2010, the Company has recorded an unrealized gain in Other Comprehensive Income (Loss) of \$63. 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 January 31, 2010 is \$2,215 (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:

	January 31 2010	April 30 2009
Computer equipment	\$ 10,090	\$ 9,978
Applications software	3,263	3,192
Office furniture and equipment	1,579	1,965
Leasehold improvements	2,055	1,972
	16,987	17,107
Accumulated depreciation	(13,098)	(12,855)
	\$ 3,889	\$ 4,252

b) Intangible assets:

	January 31 2010	April 30 2009
Purchased software and technology, gross	\$ 6,435	\$ 6,435
Other intangible assets, gross	297	297
Accumulated amortization	(6,715)	(6,663)
Intangible assets, net	\$ 17	\$ 69

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

c) Goodwill:

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

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

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 nine months ended</i>	
	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Gross research and development	\$ 3,010	\$ 3,183	\$ 8,944	\$ 9,311
Less: Investment tax credits realized	(36)	(80)	(130)	(172)
Net research and development	\$ 2,974	\$ 3,103	\$ 8,814	\$ 9,139

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.

	January 31 2010	April 30 2009
Common shares:		
Authorized – unlimited		
Issued and outstanding – 10,122		
(April 30, 2009 – 9,978), no par value	\$ 61,361	\$ 60,566
Additional paid in capital	4,337	3,833
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 65,698	\$ 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.

MKS Inc.
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b) Continuity of options issued under the plans:

A summary of the status of the plans for the nine months ended January 31, 2010 and the year ended April 30, 2009 is presented below:

	Nine Months Ended January 31, 2010		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	(121)	6.13	(96)	6.50
Forfeited	(13)	7.32	(56)	9.75
Outstanding, end of period	1,335	Cdn\$8.49	1,289	Cdn\$8.33
Options exercisable, end of period	968	Cdn\$8.62	957	Cdn\$8.25

c) Summary of the balances of options issued under the plans at January 31, 2010:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Cdn\$ 4.80 – 6.85	396	2.0 years	Cdn\$6.47	391	Cdn\$6.47
7.05 – 9.90	734	4.3	8.36	385	8.74
9.95 – 13.75	205	2.9	12.85	192	12.78
	1,335	3.4 years	Cdn\$8.49	968	Cdn\$8.62

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 nine months ended</i>	
	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Cost of product and support	\$ 2	2	\$ 7	\$ 9
Cost of service	6	3	17	18
Sales and marketing	41	32	138	173
Research and development	37	27	110	117
General and administrative	67	78	232	404
	\$ 153	142	\$ 504	\$ 721

e) Employee Share Purchase Plan:

During the nine months ended January 31, 2010, 22 shares (2009 – 25) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$173 (2009 - \$115). A stock-based compensation charge of \$26 was charged related to the discount provided to ESPP participants during the nine months ended January 31, 2010 (2009 - \$20).

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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 nine months ended</i>	
	January 31 2010	January 31 2009	January 31 2010	January 31 2009
Net income	1,106	325	\$ 4,635	\$ 2,297
Weighted average number of shares outstanding	10,110	9,933	10,077	10,105
Incremental shares from assumed conversion of stock options	130	7	112	67
Adjusted weighted average number of shares outstanding	10,240	9,940	10,189	10,172
Earnings per share:				
Basic	0.11	\$ 0.03	\$ 0.46	\$ 0.23
Diluted	0.11	\$ 0.03	\$ 0.46	\$ 0.23

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 11% of accounts receivable at January 31, 2010. Also at January 31, 2010, 6% of accounts receivable was more than 90 days past due. The Company provided an allowance of \$118 for potential credit risk in accounts receivable at January 31, 2010, up \$29 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 nine months ended January 31, 2010 of \$18 (2009 – \$20), 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 \$22,142 and had positive working capital of \$11,411 at January 31, 2010. 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.

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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>	January 31, 2010			January 31, 2009		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 7,441	\$ 1,384	\$ 8,825	\$ 7,401	\$ 1,185	\$ 8,586
Europe & Other	5,906	581	6,487	4,165	452	4,617
Total revenue	\$ 13,347	\$ 1,965	\$ 15,312	\$ 11,566	\$ 1,637	\$ 13,203
Revenue:						
License	\$ 3,791	\$ 1,172	\$ 4,963	\$ 2,768	\$ 934	\$ 3,702
Maintenance	6,957	793	7,750	6,277	703	6,980
Service	2,599	—	2,599	2,521	—	2,521
Total revenue	\$ 13,347	\$ 1,965	\$ 15,312	\$ 11,566	\$ 1,637	\$ 13,203
Income:						
Operating income	\$ 1,171	\$ 579	\$ 1,750	\$ 189	\$ 308	\$ 497
Interest and income taxes			(644)			(172)
Net income			\$ 1,106			\$ 325
<i>Nine months ended</i>			January 31, 2010			January 31, 2009
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 25,771	\$ 3,619	\$ 29,390	\$ 23,479	\$ 4,195	\$ 27,674
Europe & Other	14,938	1,401	16,339	15,735	1,427	17,162
Total revenue	\$ 40,709	\$ 5,020	\$ 45,729	\$ 39,214	\$ 5,622	\$ 44,836
Revenue:						
License	\$ 11,811	\$ 2,697	\$ 14,508	\$ 12,794	\$ 3,489	\$ 16,283
Maintenance	20,639	2,323	22,962	18,933	2,133	21,066
Service	8,259	—	8,259	7,487	—	7,487
Total revenue	\$ 40,709	\$ 5,020	\$ 45,729	\$ 39,214	\$ 5,622	\$ 44,836
Income:						
Operating income	\$ 5,838	\$ 1,049	\$ 6,887	\$ 2,350	\$ 1,346	\$ 3,696
Interest and income taxes			(2,252)			(1,399)
Net income			\$ 4,635			\$ 2,297
Purchase of fixed assets and intangible assets	\$ 734	\$ 10	\$ 744	\$ 922	\$ 13	\$ 935
Depreciation and amortization of fixed assets and intangible assets	\$ 1,069	\$ 21	\$ 1,090	\$ 1,059	\$ 25	\$ 1,084

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Notes to Consolidated Financial Statements

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

	January 31, 2010			April 30, 2009		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 16,849	\$ -	\$ 16,849	\$ 12,888	\$ -	\$ 12,888
Other	10,430	15,176	25,606	12,832	13,453	26,285
Total assets	\$ 27,279	\$ 15,176	\$ 42,455	\$ 25,720	\$ 13,453	\$ 39,173
Fixed assets, intangible assets and goodwill	\$ 6,219	\$ 2,181	\$ 8,400	\$ 6,611	\$ 2,204	\$ 8,815

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

During the nine months ended January 31, 2010, one customer of the Company accounted for 14% of revenue.

During the three months ended January 31, 2010 and 2009 and nine months ended January 31, 2009, no customers accounted for 10% or more of revenue.

At January 31, 2010, one customer accounted for 11% of accounts receivable. At April 30, 2009, no customer accounted for 10% or more of accounts receivable.