

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
Deferred income taxes	1,378	1,378
Deferred gain on forward contracts	63	83
Prepaid expenses and other assets	1,329	1,152
Total current assets	32,655	27,115
Fixed assets (note 3)	3,889	4,252
Intangible assets (note 3)	17	69
Goodwill (note 3)	2,424	2,424
Deferred income taxes	1,400	3,243
Total assets	\$ 40,385	\$ 37,103
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)	56,926	55,627
Accumulated other comprehensive loss	(1,067)	(2,076)
Accumulated deficit	(36,839)	(36,924)
Total shareholders' equity	19,020	16,627
Total liabilities and shareholders' equity	\$ 40,385	\$ 37,103

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	3,010	3,182	8,944	9,310
General and administrative	2,145	2,022	6,051	5,852
Foreign exchange (gain) loss	16	(213)	(209)	340
Stock-based compensation (note 6)	153	142	504	721
	13,598	12,785	39,483	41,311
Operating income	1,714	418	6,246	3,525
Interest income, net	2	11	9	72
Income before income taxes	1,716	429	6,255	3,597
Income tax provision (note 4):				
Current	124	(122)	264	(88)
Deferred	486	226	1,867	1,388
Income tax provision	610	104	2,131	1,300
Net income	\$ 1,106	\$ 325	\$ 4,124	\$ 2,297
Earnings per share (note 7):				
Basic	\$ 0.11	\$ 0.03	\$ 0.41	\$ 0.23
Diluted	\$ 0.11	\$ 0.03	\$ 0.41	\$ 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 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	\$ 4,124	\$ 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
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 ("Application Lifecycle Management" or "ALM") software 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 the United States for interim financial information. The same accounting policies and methods of application as used in the April 30, 2009 annual financial statements have been applied consistently with these interim statements.

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

b) Financial instruments:

The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. The recorded amounts of financial instruments in these consolidated financial statements approximate their fair values.

The Company has entered into cash flow hedges to purchase Canadian Dollars at times in the future to help mitigate foreign exchange fluctuations between the Canadian and United States dollars through 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
	<u>16,987</u>	<u>17,107</u>
Accumulated depreciation	(13,098)	(12,855)
	<u>\$ 3,889</u>	<u>\$ 4,252</u>

b) Intangible assets:

	January 31 2010	April 30 2009
Purchased software and technology, gross	\$ 681	\$ 681
Other intangible assets, gross	297	297
Accumulated amortization	(961)	(909)
Intangible assets, net	<u>\$ 17</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	-
Goodwill	<u>\$ 2,424</u>

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4. Income taxes

a) Current income tax provision (recovery):

	<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 current income tax provision	\$ 160	\$ (42)	\$ 394	\$ 84
Less: Investment tax credits realized	(36)	(80)	(130)	(172)
Current income tax provision	\$ 124	\$ (122)	\$ 264	\$ (88)

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

b) Uncertain tax positions:

Effective May 1, 2007, the Company adopted the provisions of FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. 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, the Company's policy is to include interest and penalties related to gross unrecognized tax benefits within our income tax provision. Previously, interest paid related to income taxes was classified in the Company's financial statements as interest expense. As of January 31, 2010, the Company had accrued \$nil related to the payment of such interest and penalties.

The Company is subject to income taxes in a number of jurisdictions due to its international operations. The Company is currently under examinations by Canadian tax authorities related to its 2006 and 2007 tax years.

As a result of the examinations noted above, the Company has received correspondence from the Canadian tax authorities, proposing adjustments primarily related to transfer pricing with its subsidiaries, to increase the Company's taxable income for the Canadian legal entity. The Company is in the process of responding to the correspondence and expects the matter to be finalized within the next 12 months. The range of reasonably possible outcomes is for an adjustment to increase the Company's taxable income in Canada by approximately \$200 up to \$1,900. The Company would make any required filings in order to obtain offsetting reductions to taxable income in the applicable jurisdictions outside of Canada, such that the overall impact to the Company's taxable income in all jurisdictions would be minimal.

The major tax jurisdictions the Company operates within and open tax years in each of those jurisdictions is indicated in the following table:

<u>Major Tax Jurisdiction</u>	<u>Open Tax Years</u>
Canada	2004 to 2008
United States	2006 to 2008
United Kingdom	2005 to 2008
Germany	2006 to 2008

5. Comprehensive loss:

	<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	\$ 4,124	\$ 2,297
Other comprehensive income (loss):				
Foreign currency gain (loss) on hedged derivative contracts	\$ (304)	582	\$ (20)	\$ (959)
Foreign currency translation, net of taxes of nil	(61)	(2)	1,029	(391)
Comprehensive income (loss)	\$ 741	\$ 905	\$ 5,133	\$ 947

6. 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.

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	January 31 2010	April 30 2009
Common shares:		
Authorized – unlimited		
Issued and outstanding – 10,122 (April 30, 2009 – 9,978), no par value	\$ 53,620	\$ 52,825
Additional paid in capital	3,306	2,802
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 56,926	\$ 55,627

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.

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

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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).

7. Earnings per share:

As described in note 6, a 5-for-1 share consolidation was implemented effective at the opening of trading on July 27, 2009. All share 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	\$ 4,124	\$ 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	\$ 0.41	\$ 0.23
Diluted	0.11	\$ 0.03	\$ 0.41	\$ 0.23

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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	\$ 1,135	\$ 579	\$ 1,714	\$ 110	\$ 308	\$ 418
Interest and income taxes			(608)			(93)
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	\$ 5,197	\$ 1,049	\$ 6,246	\$ 2,179	\$ 1,346	\$ 3,525
Interest and income taxes			(2,122)			(1,228)
Net income			\$ 4,124			\$ 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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	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	13,106	23,536	12,832	11,383	24,215
Total assets	\$ 27,279	\$ 13,106	\$ 40,385	\$ 25,720	\$ 11,383	\$ 37,103
Fixed assets, intangible assets and goodwill	\$ 6,219	\$ 111	\$ 6,330	\$ 6,611	\$ 134	\$ 6,745

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.