

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

<i>As at April 30</i>	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 17,098	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$89 (2008 – \$243)	7,404	16,054
Deferred income taxes (note 4)	1,378	1,384
Prepaid expenses and other assets	1,152	1,539
Total current assets	27,032	31,910
Fixed assets (note 3)	4,252	4,530
Intangible assets (note 3)	69	155
Goodwill (note 3)	2,424	2,424
Deferred income taxes (note 4)	3,243	3,245
Total assets	\$ 37,020	\$ 42,264
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,000	\$ 2,430
Accrued liabilities	2,566	5,149
Income taxes payable	657	656
Deferred revenue	16,170	15,460
Total current liabilities	20,393	23,695
Shareholders' equity:		
Share capital (note 6)	55,627	56,408
Accumulated other comprehensive loss	(2,076)	(1,894)
Accumulated deficit	(36,924)	(35,945)
Total shareholders' equity	16,627	18,569
Total liabilities and shareholders' equity	\$ 37,020	\$ 42,264

Commitments (note 5)

See accompanying Notes to Consolidated Financial Statements

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

<i>Years ended April 30</i>	2009	2008	2007
Revenue:			
License	\$ 20,272	\$ 27,178	\$ 20,234
Maintenance	27,963	25,837	22,092
Service	10,183	8,170	5,998
	58,418	61,185	48,324
Operating expenses:			
Cost of product and support	4,933	4,438	3,691
Cost of service	7,100	6,284	4,865
Sales and marketing	20,960	24,205	22,408
Research and development	12,436	13,886	12,555
General and administrative	7,528	8,767	7,239
Foreign exchange loss (gain)	437	(534)	(178)
Stock-based compensation (note 6(f))	872	661	1,056
	54,266	57,707	51,636
Operating income (loss)	4,152	3,478	(3,312)
Interest income, net	80	334	508
Income (loss) before income taxes	4,232	3,812	(2,804)
Income tax provision (recovery) (note 4):			
Current	21	(204)	(330)
Deferred	(75)	176	369
Income tax provision (recovery)	(54)	(28)	39
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Earnings (loss) per share (note 8):			
Basic	\$ 0.09	\$ 0.08	\$ (0.06)
Diluted	0.08	0.08	(0.06)
Weighted average number of shares outstanding	50,343	50,786	50,442
Diluted weighted average number of shares outstanding	50,597	51,105	50,442

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Shareholders' Equity
(US dollars, thousands)

	Common Shares (#)	Common Shares (\$)	Additional Paid in Capital	Accumulated Other Compre- hensive Loss	Accumulated Deficit	Total
Balances at April 30, 2006	49,969	\$ 52,638	\$ 345	\$ (1,293)	\$ (28,834)	\$ 22,856
Issuance of common shares	601	806	(8)	–	–	798
Stock-based compensation	–	–	1,056	–	–	1,056
Dividends paid	–	–	–	–	(4,040)	(4,040)
Comprehensive loss:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(378)	–	(378)
Net loss	–	–	–	–	(2,843)	(2,843)
Comprehensive loss	–	–	–	(378)	(2,843)	(3,221)
Balances at April 30, 2007	50,570	50,570	1,393	(1,671)	(35,717)	17,449
Issuance of common shares	857	931	(21)	–	–	910
Stock-based compensation	–	–	661	–	–	661
Dividends paid	–	–	–	–	(4,068)	(4,068)
Comprehensive income:						
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(223)	–	(223)
Net income	–	–	–	–	3,840	3,840
Comprehensive income	–	–	–	(223)	3,840	3,617
Balances at April 30, 2008	51,427	54,375	2,033	(1,894)	(35,945)	18,569
Issuance of common shares	658	774	(103)	–	–	671
Shares repurchased for cancellation	(2,195)	(2,324)	–	–	(1,233)	(3,557)
Stock-based compensation	–	–	872	–	–	872
Dividends paid	–	–	–	–	(4,032)	(4,032)
Comprehensive income:						
Unrealized foreign exchange gain on hedged derivative contracts, net of taxes of nil	–	–	–	83	–	83
Foreign currency translation adjustment, net of taxes of nil	–	–	–	(265)	–	(265)
Net income	–	–	–	–	4,286	4,286
Comprehensive income	–	–	–	(182)	4,286	4,104
Balances at April 30, 2009	49,890	\$ 52,825	\$ 2,802	\$ (2,076)	\$ (36,924)	\$ 16,627

See accompanying Notes to Consolidated Financial Statements

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

<i>Years ended April 30</i>	2009	2008	2007
Cash flows provided by operating activities:			
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of fixed assets	1,335	1,341	981
Amortization of intangible assets	86	85	37
Stock-based compensation	872	661	1,056
Deferred income taxes	(75)	182	369
Loss on disposal of fixed assets	86	135	-
Change in operating assets and liabilities:			
Accounts receivable	8,650	(9,936)	4,908
Prepaid expenses and other assets	387	407	142
Accounts payable, net of deferred compensation	(1,430)	948	(157)
Accrued liabilities	(2,583)	2,427	33
Income taxes payable	1	586	(297)
Deferred revenue	710	1,677	1,457
Net cash provided by operating activities	12,325	2,353	5,686
Cash flows used for investing activities:			
Purchase of fixed assets	(1,251)	(1,238)	(2,171)
Purchase of intangible assets	-	-	(277)
Net cash used for investing activities	(1,251)	(1,238)	(2,448)
Cash flows provided by (used for) financing activities:			
Proceeds on issuance of common shares	671	910	798
Cash paid for shares repurchased for cancellation	(3,557)	-	-
Payment of dividends	(4,032)	(4,068)	(4,040)
Net cash (used for) financing activities	(6,918)	(3,158)	(3,242)
Effect of exchange rate changes on cash and cash equivalents	9	(282)	(431)
Change in cash and cash equivalents balances	4,165	(2,325)	(435)
Cash and cash equivalents, beginning of year	12,933	15,258	15,693
Cash and cash equivalents, end of year	\$ 17,098	\$ 12,933	\$ 15,258
Supplemental cash flow information:			
Interest received	\$ 80	\$ 334	\$ 503
Interest paid	-	-	-
Income taxes paid	52	3	111
Income tax refund received	166	766	178
Acquisition of fixed assets financed in accounts payable	-	-	188

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Notes to Consolidated Financial Statements
 (US 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 reduce development costs and time to market while enabling enhanced performance.

1. Significant accounting policies:

a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP).

b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

c) Revenue recognition:

The Company recognizes revenue in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", as amended. The Company's revenues are derived from product elements, comprised primarily of license fees, maintenance elements, which include post-contract customer support and, when and if available, product upgrades, and service elements, which include implementation, training and royalties from technology licenses. Fees for service elements are generally billed separately from licenses of the Company's products. Revenue from sales that, directly or indirectly, include multiple elements is allocated between the elements to the extent of their fair values where vendor specific objective evidence exists.

Revenue from product elements is recognized pursuant to a contract or purchase order, when each element is delivered to the customer, the fee is fixed and determinable, and collection of the related receivable is deemed probable by management. When all criteria other than the fee being fixed and determinable exist for product element sales, revenue is recognized as payments are due. Provisions for product returns and sales allowances are estimated and provided for at the time of sale. Such provisions are based upon management's evaluation of historical experience and current industry trends.

Maintenance elements are generally paid in advance, are non-refundable and are recognized ratably over the term of the agreement, which is typically twelve months.

Service elements are recognized when the services are performed.

Revenues related to royalties from technology licenses are recognized when earned and when collection is probable.

Elements that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the Company's balance sheet.

d) Research and development costs:

Research and development costs related to software products are expensed in the period incurred unless criteria for capitalization under US GAAP are met.

Based on the Company's product development process, technological feasibility is established once a working model has been produced and tested. To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, research and development costs have been charged to the consolidated statements of operations in the year in which they were incurred.

e) Use of estimates:

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the year to prepare these consolidated financial statements in conformity with US GAAP. Significant items subject to such estimates and assumptions include the assessment of the carrying amount of intangible assets and goodwill, revenue recognition and the valuation of allowances for receivables, share-based payments and income tax assets. Actual results could differ from these estimates.

f) 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.

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. Cash and cash equivalent balances consist of deposits with major commercial banks, the maturities of which are less than 90 days from the date of purchase. The Company performs ongoing credit evaluations of its customers' financial condition and establishes allowances for potential losses. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers. At April 30, 2009, no customer accounted for over 10% of accounts receivable. At April 30, 2008, one customer accounted for approximately 45% of accounts receivable. One customer accounted for approximately 12% of accounts receivable at April 30, 2007.

g) Accounting for foreign currencies:

The functional currency of MKS Inc. is the United States dollar. The financial statements of subsidiaries whose functional currency is not the United States dollar are translated to United States dollars at the period end rate for assets and liabilities and at the average rate for the period for revenue and expense amounts (including depreciation and amortization). The unrealized translation gains and losses on the net investment in those operations, including long-term intercompany advances forming part of the net investment, are accumulated as a component of accumulated other comprehensive loss within the shareholders' equity section of the consolidated balance sheet.

MKS Inc.
Notes to Consolidated Financial Statements
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Foreign currency balances of the Company and its subsidiaries are translated into the relevant functional currency at period end rates for assets, liabilities, foreign currency revenue, and expense amounts are translated at the exchange rate prevailing at the time of the transaction. Exchange gains and losses resulting from the translation of foreign currency transactions are reflected in the consolidated statement of operations in the year in which they occurred. During the year ended April 30, 2009, a foreign exchange gain (loss) of \$(437) was included in operating expenditures related to such foreign currency transactions (2008: \$534; 2007: \$178).

h) Prepaid expenses and other assets:

This amount is comprised of advance royalty payments made to third parties for the licensing of technology used directly or indirectly in the Company's products, rent and lease deposits and other prepaid expenses. Third party licensing and technology amounts are amortized over their applicable periods, which approximate the useful life of the asset. Rent and lease deposits are fixed in nature and are recoverable. Other prepaid expenses are expensed in the period in which the cost relates.

i) Fixed assets:

Fixed assets are recorded at cost and are depreciated over their estimated useful lives. Leasehold improvements are recorded at cost and depreciated over the lesser of their useful lives or the term of the related lease.

Expenditures for maintenance and repairs have been charged to the consolidated statements of operations as incurred. The depreciation policies for fixed assets by category are as follows:

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
Computer equipment	Declining balance	20%
Applications software	Straight-line	3 1/3 years
Office furniture and equipment	Declining balance	20%

j) Goodwill:

The Company accounts for goodwill utilizing Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). This standard requires that goodwill be allocated to reporting units as of the date of the business combination. Goodwill has an indefinite life, is not amortized and is subject to an impairment test at least annually. An impairment loss is determined under this test by comparing the book value of goodwill to the fair value of the reporting unit to which the goodwill relates.

The Company's policy is to review for impairment of goodwill annually at April 30, based on a discounted cash flow basis for the Interoperability segment and a residual enterprise value method for the software Application Lifecycle Management segment. Based on this review, the Company has determined that no impairment exists.

k) Impairment of long-lived assets:

The Company accounts for the impairment and disposal of long-lived assets utilizing Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 requires that long-lived assets, which include fixed assets and intangible assets, other than goodwill, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of an asset is measured by comparing expected future cash flows to the carrying amount of the asset. If their carrying value exceeds the amount recoverable, a write down equal to the excess of their carrying value over their fair value is charged to the consolidated statement of operations.

l) Income taxes:

The Company accounts for income taxes using the asset and liability method of tax allocation. Under this method, differences between financial reporting and tax bases of assets and liabilities are measured at tax rates expected to be in effect when the differences reverse. The effect of a change in tax rate is recognized in the year of enactment.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net deferred tax assets quarterly and, based on all available evidence, both positive and negative, determines whether it is more likely than not that the net deferred tax assets, or a portion thereof, will be realized.

m) Comprehensive income (loss):

Comprehensive income (loss) includes net income (loss) and 'other comprehensive items', which refer to changes in the balances of assets and liabilities due to transactions with non-owner sources that have been excluded from net income (loss) and revenues, expenses, gains and losses that are recorded directly as a separate component of shareholders' equity.

n) Earnings (loss) per share:

Basic earnings (loss) per share have been computed by dividing net income (loss) by the weighted average number of Common Shares outstanding for the year. Diluted earnings (loss) per share include the effect, if any, of securities with dilutive potential on the Company's Common Shares. The treasury stock method is used for the calculation of the dilutive effect of stock options and warrants.

o) Stock based compensation:

The Company applies the fair value method of accounting for stock options prescribed under the provisions of SFAS 123R in accounting for its employee stock based compensation plans. Under SFAS 123R, the Company expenses stock-based compensation on a straight-line basis over the vesting period for each grant.

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p) Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated as hedges, changes in the fair value are either offset against the change in fair value, for the risk being hedged, of the assets and liabilities through earnings, or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings.

The Company only enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

q) Recent Accounting Pronouncements:

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141 Business Combinations (SFAS 141). The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for us beginning May 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157, does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB FSP 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On May 1, 2008, we adopted SFAS 157 except for those items that have been deferred under FSP FAS 157-2 and such adoption did not have a material impact on our consolidated financial statements. We are currently assessing the potential impact that the full adoption of SFAS 157 will have on our consolidated financial statements.

r) 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 April 30, 2009 is \$1,399 (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:

<i>As at April 30</i>	2009	2008
Computer equipment	\$ 9,978	\$ 9,736
Applications software	3,192	2,901
Office furniture and equipment	1,965	2,053
Leasehold improvements	1,972	1,888
	17,107	16,578
Accumulated depreciation	(12,855)	(12,048)
	\$ 4,252	\$ 4,530

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b) Intangible assets:

<i>As at April 30</i>	2009		2008
Purchased software and technology, gross	\$ 681	\$	958
Other intangible assets, gross	297		389
Accumulated amortization	(909)		(1,192)
Intangible assets, net	\$ 69	\$	155

Intangible assets are amortized on a straight-line basis over their expected lives, periods ranging from 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	-
Goodwill	\$ 2,424

4. Income taxes:

a) Income tax provision (recovery):

The income tax provision (recovery) consists of the following:

<i>Years ended April 30</i>	2009		2008		2007
Current:					
Canadian	\$ (235)	\$	(811)	\$	(330)
Foreign	256		607		-
Total current taxes	(21)		(204)		(330)
Deferred:					
Canadian	317		565		51
Foreign	(392)		(389)		318
Total deferred taxes	(75)		176		369
Income tax provision (recovery)	\$ (54)	\$	(28)	\$	39

b) Income tax reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to net income (loss) before income taxes. These differences result from the following items:

<i>Years ended April 30</i>	2009		2008		2007
Income (loss) before income taxes	\$ 4,232	\$	3,812	\$	(2,804)
Combined basic Federal and Provincial rates	33.3%		35.3%		36.1%
Computed expected tax expense (recovery)	\$ 1,409	\$	1,346	\$	(1,012)
Increase (decrease) resulting from:					
Losses not recognized for accounting	849		560		595
Benefit of Canadian investment tax credits	(156)		(525)		(211)
Utilization of tax assets not previously recognized	(885)		(347)		-
Change in valuation allowance	(1,560)		(1,433)		-
Foreign rate differences	(126)		4		191
Permanent difference related to stock-based compensation	289		233		381
Other permanent differences	67		80		68
Other	59		54		27
Income tax provision (recovery)	\$ (54)	\$	(28)	\$	39

During the year the Company reduced the valuation allowance against certain deferred tax assets in certain jurisdictions, as it is more likely than not that these losses will be utilized. This resulted in a credit to the deferred income tax provision of \$1,560.

c) Components of the deferred tax asset:

The components of the temporary differences, which have created the deferred tax asset, are as follows:

<i>Years ended April 30</i>	2009		2008
Tax depreciation greater than accounting depreciation	\$ 2,337	\$	3,459
Provisions not yet deducted for tax purposes	1,195		768
Other	87		41
Losses carried forward	8,699		9,488
	12,317		13,756
Valuation allowance	(7,696)		(9,127)
Deferred tax asset	\$ 4,621	\$	4,629

A valuation allowance of \$7,696 has been recorded for a portion of the deferred tax asset attributable to certain tax losses carried forward as it is more likely than not that the income tax benefit will not be realized.

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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 future taxable income in these certain legal entities changes.

d) Income tax losses available for carry forward:

The Company has domestic income tax losses available for carry forward of approximately \$4,050, all of which have no expiry date. In addition, the Company has \$21,700 of foreign income tax losses available of which \$13,900 expire between 2015 and 2027 with the remaining \$7,800 having no expiry date.

In addition, the Company has Canadian investment tax credits available for carry forward of approximately \$3,100. No recognition has been given to the potential benefit of the investment tax credits available for carry forward in these consolidated financial statements.

e) Current income tax provision (recovery):

<i>Years ended April 30</i>	2009	2008	2007
Gross current income tax provision (recovery)	\$ 256	\$ 607	\$ 116
Less: Investment tax credits realized	(235)	(811)	(446)
Net current income tax provision (recovery)	\$ 21	\$ (204)	\$ (330)

The Company qualifies for certain 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.

f) 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 April 30, 2009, 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 \$100 up to \$1,700. 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:

Major Tax Jurisdiction	Open Tax Years
Canada	2004 to 2008
United States	2006 to 2008
United Kingdom	2005 to 2008
Germany	2006 to 2008

5. Commitments, contingencies and guarantees:

a) Commitments:

Future minimum lease payments under non-cancelable operating leases for the year ended April 30, 2009 are as follows:

2010	\$ 1,650
2011	1,100
2012	392
2013	284
2014	189
Thereafter	199
Total minimum lease payments	\$ 3,814

Rent expense for fiscal 2009, 2008 and 2007 was \$1,710, \$1,773 and \$1,627, respectively. These amounts are net of sublease income of \$231, \$65 and \$12 for each of fiscal 2009, 2008 and 2007, respectively. The Company is also responsible for certain common area costs at its various leased premises.

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b) Guarantees:

The Company's standard warranty covers up to a 90-day period and warrants against substantial nonconformance of the Company's software to the published documentation at time of delivery. The Company has not experienced any material returns where it was under obligation to honor this standard warranty, and as such, there is no warranty provision recorded in the consolidated financial statements.

The Company's software license agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software products infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs attributable to such indemnification and has not accrued any liabilities related to such obligations in the consolidated financial statements.

The Company has provided standard indemnifications to its landlords under certain property lease agreements for claims by third parties in connection with the Company's use of the premises. In addition, the Company may from time to time, in the normal course of business provide indemnifications with respect to the procurement and provision of products and services. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. Historically, the Company has not made any payments relating to such indemnifications.

6. Shareholders' equity:

a) Share capital:

<i>As at April 30</i>	2009	2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 49,890 (2007 – 51,427), no par value	\$ 52,825	\$ 54,375
Additional paid in capital	2,802	2,033
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	–	–
Total share capital	\$ 55,627	\$ 56,408

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) Transactions:

Fiscal 2009: The Company issued 478 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$508. The Company issued 180 Common Shares to employees under the ESPP for aggregate proceeds of \$163. The Company repurchased 2,195 Common Shares pursuant to its Normal Course Issuer Bid for an aggregate cost of \$3,557.

Fiscal 2008: The Company issued 775 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$807. The Company issued 82 Common Shares to employees under the ESPP for aggregate proceeds of \$103.

Fiscal 2007: The Company issued 601 Common Shares to employees on the exercise of stock options for aggregate proceeds of \$798.

c) Stock option plans:

The Company's stock option plans are intended to encourage ownership of the Company by directors, officers and employees of the Company and its subsidiaries. The maximum number of Common Shares that may be issued under the plans is 11,663 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. The maximum number of Common Shares that may be reserved for issuance to any one person under the plans is 5% of the Common Shares outstanding at the time of the grant. Generally, options issued under the plans vest annually over a four-year period. Any option granted which, for any reason, is cancelled or terminated prior to its exercise will again become available for grant under the plans. In accordance with the plans, the exercise price of options is determined based on the fair value of the Company's Common Shares at the date of grant.

Options granted under the plans may be exercised during a period not exceeding seven years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer or employee of the Company or any of its subsidiaries, as applicable. Options issued under the plans are non-transferable.

d) Continuity of options issued under the plans:

A summary of the status of the plans as of April 30, 2009, 2008 and 2007 is presented below:

<i>As at April 30</i>	2009		2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	6,178	Cdn\$1.66	7,652	Cdn\$1.69	7,625	Cdn\$1.59
Granted	1,025	1.60	823	1.54	795	2.69
Exercised	(478)	1.30	(775)	1.30	(601)	1.48
Forfeited	(277)	1.95	(1,522)	1.90	(167)	2.96
Outstanding, end of year	6,448	Cdn\$1.67	6,178	Cdn\$1.66	7,652	Cdn\$1.69
Options exercisable, end of year	4,787	Cdn\$1.65	4,833	Cdn\$1.59	6,187	Cdn\$1.55

MKS Inc.**Notes to Consolidated Financial Statements**

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- e) Summary of the balances of options issued under the plans at April 30, 2009:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Cdn\$ 0.60 – 0.96	160	2.3 years	Cdn\$ 0.95	160	Cdn\$ 0.95
1.00 – 1.37	2,458	2.2	1.30	2,431	1.30
1.41 – 1.98	2,803	4.4	1.70	1,373	1.81
2.07 – 2.75	1,027	3.7	2.57	823	2.54
	6,448	3.4 years	Cdn\$ 1.67	4,787	Cdn\$ 1.65

- f) Impact of stock compensation:

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

Years ended April 30	2009	2008	2007
Cost of product and support	\$ 19	\$ 13	\$ 24
Cost of service	30	23	39
Sales and marketing	276	210	306
Research and development	212	145	242
General and administrative	335	270	445
	\$ 872	\$ 661	\$ 1,056

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the year ended April 30, 2009: risk free interest rate – 3% (2008 – 4%; 2007 – 5%), dividend yield – 6% (2008 – 6%; 2007 – 3%), expected lives of options – 5 years (2008 – 5 years; 2007 – 5 years), expected volatility – 59% (2008 – 69%; 2007 – 77%) and expected forfeiture rate – 17% (2008 – 17%; 2007 – 17%). The fair value of options applicable to non-vested awards at April 30, 2009 was \$669 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.1 years.

- g) Employee Share Purchase Plan:

In 2006, the Company's shareholders approved an Employee Share Purchase Plan (ESPP) in order to encourage the Company's employees and directors to invest in its shares. The ESPP allows participants to contribute a specified percentage of their base salary, generally through payroll deductions, for the purposes of purchasing shares in the Company from treasury. The ESPP provides for quarterly purchases to be at the share's market value at the time of purchase less 15%.

During the year ended April 30, 2009, 180 shares (2008: 82; 2007: nil) were issued under the ESPP for aggregate proceeds of \$103 (2008: \$103; 2007: \$nil). A stock-based compensation charge of \$29 was charged related to the discount provided to ESPP participants during the year ended April 30, 2009 (2008: \$18; 2007: \$nil).

7. Derivative Instruments and Hedging Activities:

The Company holds foreign exchange rate related derivative instruments to manage its exposure to foreign currency price fluctuations. The Company does not enter into derivative instruments for any purpose other than cash-flow-hedging. The Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in foreign exchange rates, the Company exposes itself to credit risk and market risk.

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates, currency exchange rates, or other factors that impact prices.

The Company assesses foreign exchange rate cash flow risk by continually identifying and monitoring cash flows in various currencies that may adversely impact expected future cash flows in US Dollars and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor foreign exchange rate cash flow risk attributable to the Company's forecasted non-US Dollar cash flows as well as the Company's offsetting hedge positions.

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 July 2010. These hedges are accounted for as designated cash flow hedges. At April 30, 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 April 30, 2009, the Company has recorded an unrealized gain in Other Comprehensive Income (Loss) and accounts payable of \$83. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

As of April 30, 2009, \$51 of deferred losses on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next 12 months, as the derivative contracts are executed. There were no cash flow hedges discontinued during 2009, 2008 or 2007.

MKS Inc.
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8. Earnings (loss) per share:

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

<i>Years ended April 30</i>	2009	2008	2007
Net income (loss)	\$ 4,286	\$ 3,840	\$ (2,843)
Weighted average number of shares outstanding	50,343	50,786	50,442
Incremental shares from assumed conversion of stock options & warrants	254	319	–
Adjusted weighted average number of shares outstanding	50,597	51,105	50,422
Earnings (loss) per share:			
Basic	\$ 0.09	\$ 0.08	\$ (0.06)
Diluted	\$ 0.08	\$ 0.08	\$ (0.06)

For the year ended April 30, 2007, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for that period and to do so would have been anti-dilutive.

9. 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.

The following schedule provides required segmented information disclosure.

<i>Years ended April 30</i>	2009			2008			2007		
	ALM	IO	Total	ALM	IO	Total	ALM	IO	Total
Revenue:									
North America	\$ 30,247	\$ 5,261	\$ 35,508	\$ 27,358	\$ 5,301	\$ 32,659	\$ 25,377	\$ 6,012	\$ 31,389
Europe & Other	20,760	2,150	22,910	26,395	2,131	28,526	14,793	2,142	16,935
Total revenue	\$ 51,007	\$ 7,411	\$ 58,418	\$ 53,753	\$ 7,432	\$ 61,185	\$ 40,170	\$ 8,154	\$ 48,324
Revenue:									
License	\$ 15,627	\$ 4,645	\$ 20,272	\$ 22,857	\$ 4,321	\$ 27,178	\$ 15,248	\$ 4,986	\$ 20,234
Maintenance	25,197	2,766	27,963	22,726	3,111	25,837	18,934	3,158	22,092
Service	10,183	–	10,183	8,170	–	8,170	5,988	10	5,998
Total revenue	\$ 51,007	\$ 7,411	\$ 58,418	\$ 53,753	\$ 7,432	\$ 61,185	\$ 40,170	\$ 8,154	\$ 48,324
Income (loss):									
Operating income (loss)	\$ 2,421	\$ 1,731	\$ 4,152	\$ 1,562	\$ 1,916	\$ 3,478	\$ (5,657)	\$ 2,345	\$ (3,312)
Interest and income taxes			134			362			469
Net income (loss)			\$ 4,286			\$ 3,840			\$ (2,843)
Purchase of fixed assets and intangible assets									
	\$ 1,251	\$ –	\$ 1,251	\$ 1,238	\$ –	\$ 1,238	\$ 2,570	\$ 66	\$ 2,636
Depreciation and amortization of fixed assets and intangible assets									
	\$ 1,400	\$ 21	\$ 1,421	\$ 1,382	\$ 44	\$ 1,426	\$ 987	\$ 31	\$ 1,018

	April 30, 2009			April 30, 2008		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 12,805	\$ –	\$ 12,805	\$ 10,366	\$ –	\$ 10,366
Other	12,832	11,383	24,215	19,331	12,567	31,898
Total assets	\$ 25,637	\$ 11,383	\$ 37,020	\$ 29,697	\$ 12,567	\$ 42,264
Fixed assets, intangible assets and goodwill						
	\$ 6,611	\$ 134	\$ 6,745	\$ 6,954	\$ 155	\$ 7,109

During the years ended April 30, 2009 and 2007, no customers accounted for 10% or more of revenue.

During the year ended April 30, 2008 one customer accounted for approximately 11% of revenue.

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