SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2000

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission file number 0-23621

MKS INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Massachusetts	04-2277512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Six Shattuck Road, Andover, Massachusetts	01810
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(978) 975-2350

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Number of shares outstanding of the issuer's common stock as of April 28, 2000: 25,013,094

MKS INSTRUMENTS, INC.
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MKS INSTRUMENTS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	MARCH 31, 2000 (Unaudited)	DECEMBER 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,440	$ 35,714
Short-term investments	21,264	28,132
Trade accounts receivable, net	41,987	36,857
Inventories	33,316	27,650
Deferred tax asset	4,703	4,119
Other current assets	2,410	3,378
Total current assets	152,120	135,850
Property, plant and equipment, net	32,616	32,826
Goodwill, net	7,475	--
Other assets	6,967	5,929
Total assets	$199,178	$174,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 14,070	$ 12,423
Current portion of long-term debt	7,479	7,346
Current portion of capital lease obligations	1,007	1,059
Accounts payable	11,069	7,683
Accrued compensation	6,098	9,202
Other accrued expenses	6,998	6,314
Income taxes payable	921	1,385
Distribution Payable	3,350	3,350
Total current liabilities	50,992	48,762
Long-term debt	3,931	4,340
Long-term portion of capital lease obligations	1,067	1,322
Deferred tax liability	1,291	522
Other liabilities	495	490
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred Stock, $0.01 par value, 2,000,000 shares authorized; none issued and outstanding	--	--
Common Stock, no par value, 50,000,000 shares authorized; 24,981,142 and 24,632,849 issued and outstanding at March 31, 2000 and December 31, 1999, respectively	113	113
Additional paid-in capital	97,567	84,713
Retained earnings	42,497	33,166
Shareholder receivable	(793)	(856)
Accumulated other comprehensive income	2,018	2,033
Total stockholders' equity	141,402	119,169
Total liabilities and stockholders' equity	$199,178	$174,605

The accompanying notes are an integral part of the consolidated financial statements.

MKS INSTRUMENTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Net sales	$65,556	$37,910
Cost of sales	35,513	22,557
Gross profit	30,043	15,353
Research and development	4,427	2,955
Selling, general and administrative	11,000	8,857
Income from operations	14,616	3,541
Interest expense	429	338
Interest income	803	96
Other income (expense), net	--	168
Income before income taxes	14,990	3,467
Provision for income taxes	5,659	338
Net income	$ 9,331	$ 3,129
Historical net income per share:		
Basic	$ 0.38	$ 0.17
Diluted	$ 0.36	$ 0.16
Historical weighted average common shares outstanding:		
Basic	24,793	18,054
Diluted	26,124	19,402
Pro forma data for 1999:		
Historical income before income taxes		$ 3,467
Pro forma provision for income taxes assuming C corporation tax		1,317
Pro forma net income		$ 2,150
Pro forma net income per share:		
Basic		$ 0.12
Diluted		$ 0.11
Pro forma weighted average common shares outstanding:		
Basic		18,054
Diluted		18,890

The accompanying notes are an integral part of the consolidated financial statements.

MKS INSTRUMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Cash flows from operating activities:		
Net income	$ 9,331	$ 3,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,740	1,536
Loss (gain) on disposal of property, plant and equipment	10	(126)
Other	(408)	(7)
Forward exchange contract loss realized	--	9
Changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable	(5,182)	(4,504)
(Increase) decrease in inventories	(5,740)	(222)
(Increase) decrease in other current assets	(781)	121
Increase (decrease) in accrued expenses and other current liabilities	2,081	860
Increase (decrease) in accounts payable	3,296	2,390
Net cash provided by operating activities	4,347	3,186
Cash flows from investing activities:		
Proceeds from sales of investments	7,429	--
Purchases of property, plant and equipment	(1,486)	(1,048)
(Increase) decrease in other assets	361	(86)
Cash used to settle forward exchange contracts	--	(9)
Net cash provided by (used in) investing activities	6,304	(1,143)
Cash flows from financing activities:		
Proceeds from short-term borrowings	1,670	993
Payments on short-term borrowings	--	(978)
Principal payments on long-term debt	(514)	(512)
Deferred initial public offering costs	--	(282)
Proceeds from exercise of stock options	1,138	--
Principal payments under capital lease obligations	(308)	(252)
Net cash provided by (used in) financing activities	1,986	(1,031)
Effect of exchange rate changes on cash and cash equivalents	89	(241)
Increase in cash and cash equivalents	12,726	771
Cash and cash equivalents at beginning of period	35,714	11,188
Cash and cash equivalents at end of period	$48,440	$11,959
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 267	$ 305
Income taxes	$ 1,631	$ 335
Noncash transactions during the period:		
Stock issued in acquisition of Compact Instrument	$ 8,433	$ --

The accompanying notes are an integral part of the consolidated financial statements.

MKS INSTRUMENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tables in thousands, except per share data)

1) BASIS OF PRESENTATION

The interim financial data as of March 31, 2000 and for the three months ended March 31, 2000 and 1999 is unaudited; however, in the opinion of MKS Instruments, Inc. ("MKS" or the "Company"), the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by generally accepted accounting principles. The financial statements should be read in conjunction with the December 31, 1999 audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2000.

2) NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition". SAB 101 summarizes the staff's view in applying generally accepted accounting principles to revenue recognition. The application of the guidance in SAB 101 will be required in the Company's second quarter of the fiscal year 2000. The effect of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting from a change in accounting principle. The Company is currently in the process of evaluating the impact that SAB 101 will have on its financial position or results of operations.

3) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

4) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents consist of the following:

	March 31, 2000	December 31, 1999
Cash and Money Market Instruments	$28,725	$22,156
Commercial Paper	6,919	5,558
Federal Government and Government Agency Obligations	11,500	6,000
Corporate Obligations	1,296	2,000
	$48,440	$35,714

Short-term available-for-sale investments maturing within one year consist of the following:

	March 31, 2000	December 31, 1999
Federal Government and Government Agency Obligations	$13,253	$16,245
Corporate Obligations	2,999	5,501
Commercial Paper	3,424	4,641
Equity Securities	1,588	1,745
	$21,264	$28,132

MKS INSTRUMENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Tables in thousands, except per share data)

Long-term available-for-sale investments maturing within two years consist of the following:

	March 31, 2000	December 31, 1999
Federal Government and Government Agency Obligations	$592	$1,063

5) HISTORICAL AND PRO FORMA NET INCOME PER SHARE

Historical net income per share is not meaningful in 1999 because of the Company's conversion from an S corporation to a C corporation in April, 1999 upon the closing of its initial public offering. For the three months ended March 31, 1999, historical net income has been adjusted for the pro forma provision for income taxes calculated assuming the Company was subject to income taxation as a C corporation.

The following is a reconciliation of basic to diluted historical and pro forma net income per share:

	Three Months Ended March 31, 2000	1999	
	HISTORICAL	PRO FORMA	HISTORICAL
Net income	$ 9,331	$ 2,150	$ 3,129
Shares used in net income per common share-basic	24,793	18,054	18,054
Effect of dilutive securities: Employee and director stock options	1,331	836	1,348
Shares used in net income per common share-diluted	26,124	18,890	19,402
Net income per common share-basic	$ 0.38	$ 0.12	$ 0.17
Net income per common share-diluted	$ 0.36	$ 0.11	$ 0.16

For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price greater than the average market price of the common shares during the period. Options to purchase 10,955 and 24,000 shares of common stock were outstanding during the three months ended March 31, 2000 and 1999, respectively, but were not included in the calculation of diluted net income per common share because the option price was greater than the average market price of the common shares during the period.

6) INVENTORIES

Inventories consist of the following:

	March 31, 2000	December 31, 1999
Raw material	$ 7,150	$ 6,644
Work in process	8,441	7,026
Finished goods	17,725	13,980
	$33,316	$27,650

MKS INSTRUMENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Tables in thousands, except per share data)

7) STOCKHOLDERS' EQUITY

Total comprehensive income was as follows:

	Three Months Ended March 31, 2000	1999
Net income	$9,331	$3,129
Other comprehensive income, net of taxes:		
Changes in value of financial instruments designated as hedges of currency and interest rate exposures	192	--
Foreign currency translation adjustment	(105)	(567)
Unrealized gain (loss) on investments	(102)	119
Other comprehensive income, net of taxes	(15)	(448)
Total comprehensive income	$9,316	$2,681

8) SEGMENT INFORMATION AND SIGNIFICANT CUSTOMER

Segment Information for the three months ended March 31, 2000 and 1999:

		NORTH AMERICA	FAR EAST	EUROPE	TOTAL
Net sales to unaffiliated customers	2000	$45,406	$13,977	$6,173	$65,556
	1999	26,133	7,089	4,688	37,910
Intersegment net sales	2000	$14,212	$371	$298	$14,881
	1999	6,841	132	168	7,141
Income from operations	2000	$12,427	$1,363	$826	$14,616
	1999	2,857	292	392	3,541

The Company had one customer comprising 25% and 20% of net sales for the three months ended March 31, 2000 and 1999, respectively.

9) COMMITMENTS AND CONTINGENCIES

Prior to its initial public offering, the Company entered into a Tax Indemnification and S Corporation Distribution Agreement with its then existing stockholders (the "Pre-IPO stockholders"). The agreement includes provisions for the payment, with interest, by the pre-IPO stockholders or MKS, as the case may be, for the difference between the $40,000,000 distributed as an estimate of the amount of the accumulated adjustments account as of April 4, 1999, which is the date the Company's S Corporation status was terminated, and the actual amount of the accumulated adjustments account on that day. The actual amount of the accumulated adjustments account cannot be determined until MKS calculates the amount of its taxable income for the year ending December 31, 1999. Based on the Company's estimate of the taxable income for the year ending December 31, 1999, MKS believes that an additional future distribution to the Pre-IPO stockholders will be required under this agreement. The amount of the additional distribution, prior to interest, is currently estimated to be $3,350,000. The amount of the additional distribution payable was charged directly to retained earnings during 1999 and had no impact on net income or earnings per share. The amount of the accumulated adjustments account can be affected by income tax audits of MKS. If any audit increases or decreases the accumulated adjustments account, MKS or the Pre-IPO stockholders, as the case may be, will also be

MKS INSTRUMENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Tables in thousands, except per share data)

required to make a payment with interest, of such difference to the other party. No shareholders, other than the Pre-IPO stockholders, are parties to the Tax Indemnification and S Corporation Distribution Agreement.

10) ACQUISITION

On March 10, 2000 the Company acquired Compact Instrument Technology, LLC ("Compact Instrument"), a start-up company with proprietary technology in process monitoring for semiconductor manufacturing and other manufacturing processes. The acquisition has been accounted for by the purchase method of accounting. The purchase price was $8,700,000 and consisted of $8,400,000 in stock and $300,000 in assumed net liabilities. The purchase price was allocated to the assets acquired based upon their estimated fair values. This allocation resulted in goodwill of $7,600,000 and acquired technology of $1,600,000, which are being amortized on a straight-line basis over 5 years and 3 years, respectively. The acquired technology is included in "Other assets" in the accompanying balance sheet.

The following unaudited pro forma information for the three months ended March 31, 2000 presents a summary of the results of operations of the Company as if the acquisition had occurred at the beginning of the period.

Net sales..................................	$65,556
Net income.................................	$ 8,933
Net income per share:	
Basic..................................	$ 0.36
Diluted................................	$ 0.34

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred at the beginning of the period, or which may result in the future. The pro forma results for the three months ended March 31, 1999 are not presented as Compact Instrument was not organized until April 28, 1999.

ITEM 2.

MKS INSTRUMENTS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains a number of statements, including, without limitation, statements relating to MKS's beliefs, expectations and plans which are forward-looking statements, as are statements that certain actions, conditions or circumstances will continue. Such statements are based upon management's current expectations and are subject to a number of factors and uncertainties. Information contained in these forward-looking statements is inherently uncertain and actual performance and results may differ materially due to many important factors. See "Factors That May Affect Future Operating Results" for factors that could cause actual results to differ materially from any forward-looking statements made by MKS. The terms "MKS", "we", "us" and "our" refer to MKS Instruments, Inc.

MKS develops, manufactures and supplies instruments, components and integrated subsystems used to measure, control and analyze gases in semiconductor manufacturing and similar industrial manufacturing processes. We sold products to over 4,000 customers in 1999. We estimate that during 1999 approximately 66% of our net sales were to semiconductor capital equipment manufacturers and semiconductor device manufacturers. The following table sets forth for the periods indicated the percentage of total net sales of certain line items included in MKS's consolidated statement of income data.

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Net sales	100.0%	100.0%
Cost of sales	54.2	59.5
Gross profit	45.8	40.5
Research and development	6.7	7.8
Selling, general and administrative	16.8	23.4
Income from operations	22.3	9.3
Interest income (expense), net	0.6	(0.6)
Other income, net	--	0.4
Income before income taxes	22.9	9.1
Provision for income taxes	8.7	0.8
Non-recurring deferred tax credit	--	--
Net income	14.2%	8.3%
Pro form data for 1999:		
Historical income before income taxes		9.1%
Pro forma provision for income taxes		3.4
Pro forma net income		5.7%

Results of Operations

Net Sales. Net sales increased 72.9% to $65.6 million for the three months ended March 31, 2000 from $37.9 million for the three months ended March 31, 1999. International net sales were approximately $20.2 million for the three months ended March 31, 2000 or 30.7% of net sales and $11.8 million for the three months ended March 31, 1999 or 31.1% of net sales. The increase in net sales was due to increased worldwide sales volume of MKS's existing products which resulted primarily from increased sales to the Company's semiconductor capital equipment manufacturer and semiconductor device manufacturer customers.

Gross Profit. Gross profit as a percentage of net sales increased to 45.8% for the three months ended March 31, 2000 from 40.5% for the three months ended March 31, 1999. The increase was primarily due to fuller utilization of existing manufacturing capacity as a result of increased net sales and other manufacturing efficiencies.

Research and Development. Research and development expense increased 49.8% to $4.4 million or 6.7% of net sales for the three months ended March 31, 2000 from $3.0 million or 7.8% of net sales for the three months ended March 31, 1999 due to increased spending of $0.9 for compensation and increased expenses for development materials related to projects in process.

Selling, General and Administrative. Selling, general and administrative expenses increased 24.2% to $11.0 million or 16.8% of net sales for the three months ended March 31, 2000 from $8.9 million or 23.4% of net sales for the three months ended March 31, 1999. The increase was due primarily to increased compensation expense of $1.0 million, increased professional fees of $0.4 million, and other general and administrative expenses.

Interest Income (Expense), Net. During the three months ended March 31, 2000, the Company generated interest income of $0.8 million primarily from the invested net proceeds of our initial public offering, offset by interest expense on outstanding debt. Net interest expense for the three months ended March 31, 1999 represents interest on outstanding loans, offset by interest income earned on cash and cash equivalents and short-term investments.

Other Income (Expense), Net. Other income of $0.2 million in the three months ended March 31, 1999 primarily represents gains recorded from foreign exchange contracts which did not qualify for hedge accounting.

Effective April 1, 1999 MKS adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The adoption of SFAS No. 133 did not have a material impact on our financial position or results of operations. The derivative instruments currently held by us which have been designated as hedges, including forward exchange contracts, local currency purchased options, and an interest rate swap, qualify for hedge accounting under SFAS No. 133, and changes in their fair value will be recorded as a component of other comprehensive income until the hedged transaction occurs.

Provision for Income Taxes. Prior to the closing of its initial public offering in April, 1999 MKS was treated as an S corporation for tax purposes. As an S corporation, MKS was not subject to federal, and certain state, income taxes. Upon the closing of our initial public offering on April 5, 1999, our status as an S corporation was terminated and we became subject to taxes as a C corporation. The pro forma provision for income taxes in 1999 reflects the estimated tax expense MKS would have incurred had it been subject to federal and state income taxes as a C corporation.

LIQUIDITY AND CAPITAL RESOURCES

MKS has financed its operations and capital requirements through a combination of cash provided by operations, long-term real estate financing, capital lease financing and short-term lines of credit.

Operations provided cash of $4.3 million for the three months ended March 31, 2000 primarily impacted by net income, depreciation and changes in the levels of accounts payable, accrued expenses, inventories and accounts receivable. Investing activities generated cash of $6.3 million for the three months ended March 31, 2000 primarily from selling short-term investments offset by the purchase of property and equipment. Financing activities provided cash of $2.0 million primarily from short-term borrowings and employees exercising stock options.

Working capital was $101.1 million as of March 31, 2000, an increase of $14.0 million from December 31, 1999. MKS has a combined $30.0 million line of credit with two banks, expiring December 31, 2000, all of which is available.

Prior to our initial public offering, we entered into a Tax Indemnification and S Corporation Distribution Agreement with our then existing stockholders. The agreement includes provisions for the payment, with interest, by those stockholders or MKS, as the case may be, for the difference between the $40 million distributed as an estimate of the amount of the accumulated adjustments account as of April 4, 1999, which is the date our S corporation status was terminated, and the actual amount of the accumulated adjustments account on that day. The actual amount of the accumulated adjustments account cannot be determined until we calculate the amount of our taxable income for the year ending December 31, 1999. Based on our estimate of the taxable income for the year ending December 31, 1999, we believe that an additional distribution to the then existing stockholders will be required under this agreement. The amount of the additional distribution, prior to interest, is currently estimated to be $3.4 million. The amount of the additional distribution payable was charged directly to retained earnings during 1999 and had no impact on net income or earnings per share. The amount of the accumulated adjustments account can be affected by income tax audits of MKS. If any audit increases or decreases the accumulated adjustments account, MKS or the then existing stockholders, as the case may be, will also be required to make a payment with interest, of such difference to the other party. No stockholders, other than the then existing stockholders, are parties to the Tax Indemnification and S Corporation Distribution Agreement.

MKS believes that the net proceeds from its initial public offering, together with the cash anticipated to be generated from operations and funds available from existing credit facilities, will be sufficient to satisfy its estimated working capital and planned capital expenditure requirements through at least the next 24 months.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 2 of Notes to Consolidated Financial Statements for a discussion of the impact of recently issued accounting pronouncements.

YEAR 2000 COMPLIANCE

The Year 2000 problem stems from the fact that many currently installed computer systems include software and hardware products that are unable to distinguish 21st century dates from those in the 20th century. As a result, computer software and/or hardware used by many companies and governmental agencies may need to be upgraded to comply with Year 2000 requirements or risk system failure or miscalculations causing disruptions to normal business activities. To date, we have experienced no material year 2000 problems with our internal computer software and hardware, products, facilities and manufacturing equipment or third party goods, services and interfaces.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Cyclicality of the Semiconductor Industry

We estimate that approximately 66% of our sales during 1999 were to semiconductor capital equipment manufacturers and semiconductor device manufacturers, and we expect that sales to such customers will continue to account for a substantial majority of our sales. Our business depends upon the capital expenditures of semiconductor device manufacturers, which in turn depend upon the demand for semiconductors. Periodic reductions in demand for the products manufactured by semiconductor capital equipment manufacturers and semiconductor device manufacturers may adversely affect our business, financial condition and results of operations. Historically, the semiconductor market has been highly cyclical and has experienced periods of overcapacity, resulting in significantly reduced demand for capital equipment. For example, in 1996 and 1998, the semiconductor capital equipment industry experienced significant declines, which caused a number of our customers to reduce their orders. We cannot be certain that semiconductor downturns will not recur. A decline in the level of orders as a result of any future downturn or slowdown in the semiconductor capital equipment industry could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in Operating Results

A substantial portion of our shipments occur shortly after an order is received and therefore we operate with a low level of backlog. As a consequence of the just-in-time nature of shipments and the low level of backlog, a decrease in demand for our products from one or more customers could occur with limited advance notice and could have a material adverse effect on our results of operations in any particular period.

A significant percentage of our expenses are relatively fixed and based in part on expectations of future net sales. The inability to adjust spending quickly enough to compensate for any shortfall would magnify the adverse impact of a shortfall in net sales on our results of operations. Factors that could cause fluctuations in our net sales include:

- the timing of the receipt of orders from major customers;

- shipment delays;

- disruption in sources of supply;

- seasonal variations of capital spending by customers;

- production capacity constraints; and

- specific features requested by customers.

For example, we were in the process of increasing our production capacity when the semiconductor capital equipment market began to experience a significant downturn in 1996. This downturn had a material adverse effect on our operating results in the second half of 1996 and the first half of 1997. After an increase in business in the latter half of 1997, the market experienced another downturn in 1998, which had a material adverse effect on our 1998 and first quarter 1999 operating results. As a result of the factors discussed above, it is likely that we will in the future experience quarterly or annual fluctuations and that, in one or more future quarters, our operating results will fall below the expectations of public market analysts or investors. In any such event, the price of our common stock could decline significantly.

Customer Concentration

Our five largest customers accounted for approximately 33% of our net sales in 1999 and 24% of our net sales in 1998. The loss of a major customer or any reduction in orders by these customers, including reductions due to market or competitive conditions, would likely have a material adverse effect on our business, financial condition and results of operations. During 1999, one customer, Applied Materials, accounted for approximately 22% of our net sales. While we have entered into a purchase contract with Applied Materials that expires in 2000 unless it is extended by mutual agreement, none of our significant customers, including Applied Materials, has entered into an agreement requiring it to purchase any minimum quantity of our products. The demand for our products from our semiconductor capital equipment customers depends in part on orders received by them from their semiconductor device manufacturer customers.

Attempts to lessen the adverse effect of any loss or reduction through the rapid addition of new customers could be difficult because prospective customers typically require lengthy qualification periods prior to placing volume orders with a new supplier. Our future success will continue to depend upon:

- our ability to maintain relationships with existing key customers;

- our ability to attract new customers; and

- the success of our customers in creating demand for their capital equipment products which incorporate our products.

Competition

The markets for our products are highly competitive. Our competitive success often depends upon factors outside of our control. For example, in some cases, particularly with respect to mass flow controllers, semiconductor device manufacturers may direct semiconductor capital equipment manufacturers to use a specified supplier's product in their equipment. Accordingly, for such products, our success will depend in part on our ability to have semiconductor device manufacturers specify that our products be used at their semiconductor fabrication facilities. In addition, we may encounter difficulties in changing established relationships of competitors that already have a large installed base of products within such semiconductor fabrication facilities.

Technological Changes

New products designed by semiconductor capital equipment manufacturers typically have a lifespan of five to ten years. Our success depends on our products being designed into new generations of equipment for the semiconductor industry. We must develop products that are technologically current so that they are positioned to be chosen for use in each successive new generation of semiconductor capital equipment. If our products are not chosen by our customers, our net sales may be reduced during the lifespan of our customers' products.

Expansion of Manufacturing Capacity

Our ability to increase sales of certain products depends in part upon our ability to expand our manufacturing capacity for such products in a timely manner. If we are unable to expand our manufacturing capacity on a timely basis or to manage such expansion effectively, our customers could implement our competitor's products and, as a result, our market share could be reduced. Because the semiconductor industry is subject to rapid demand shifts which are difficult to foresee, we may not be able to increase capacity quickly enough to respond to a rapid increase in demand in the semiconductor industry.

Additionally, capacity expansion could increase our fixed operating expenses and if sales levels do not increase to offset the additional expense levels associated with any such expansion, our business, financial condition and results of operations could be materially adversely affected.

International Operations and Sales

International sales, which include sales by our foreign subsidiaries, but exclude direct export sales which were less than 10% of our total net sales, accounted for approximately 31% of net sales in 1999 and 32% of net sales in 1998. We anticipate that international sales will continue to account for a significant portion of our net sales. In addition, certain of our key domestic customers derive a significant portion of their revenues from sales in international markets. Therefore, our sales and results of operations could be adversely affected by economic slowdowns and other risks associated with international sales.

Exchange rate fluctuations could have an adverse effect on our net sales and results of operations and we could experience losses with respect to our hedging activities. Unfavorable currency fluctuations could require us to increase prices to foreign customers which could result in lower net sales by us to such customers. Alternatively, if we do not adjust the prices for our products in response to unfavorable currency fluctuations, our results of operations could be adversely affected. In addition, sales made by our foreign subsidiaries are denominated in the currency of the country in which these products are sold and the currency we receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. We enter into forward exchange contracts and local currency purchased options to reduce currency exposure arising from intercompany sales of inventory. However, we cannot be certain that our efforts will be adequate to protect us against significant currency fluctuations or that such efforts will not expose us to additional exchange rate risks.

Need to Retain and Attract Key Employees

Our success depends to a large extent upon the efforts and abilities of a number of key employees and officers, particularly those with expertise in the semiconductor manufacturing and similar industrial manufacturing industries. The loss of key employees or officers could have a material adverse effect on our business, financial condition and results of operations. We believe that our future success will depend in part on our ability to attract and retain highly skilled technical, financial, managerial and marketing personnel. Competition for such personnel is intense, and we cannot be certain that we will be successful in attracting and retaining such personnel.

Intellectual Property Matters

Although we seek to protect our intellectual property rights through patents, copyrights, trade secrets and other measures, we cannot be certain that:

- we will be able to protect our technology adequately;

- competitors will not be able to develop similar technology independently;

- any of our pending patent applications will be issued;

- intellectual property laws will protect our intellectual property rights; or

- third parties will not assert that our products infringe patent, copyright or trade secrets of such parties.

Litigation may be necessary in order to enforce our patents, copyrights or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk is contained in the annual Management's Discussion and Analysis of Financial Condition and Results of Operations in MKS's Annual Report on Form 10-K for the year ended December 31, 1999, which was filed with the Securities and Exchange Commission on March 30, 2000. There were no material changes in MKS's exposure to market risk from December 31, 1999.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

MKS is not aware of any material legal proceedings to which it or any of its subsidiaries is a party.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(d) Use of Proceeds from Sales of Registered Securities. There has been no change to the information previously provided by the Company on Form 10-Q for the period ended March 31, 1999 relating to the securities sold by the Company pursuant to the Registration Statement on Form S-1 (Reg. No. 333-71363) that was declared effective by the Securities and Exchange Commission on March 29, 1999.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Ex. No.	Description
10.31	Employment Agreement
27	Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report on Form 10-Q is filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MKS INSTRUMENTS, INC.

May 11, 2000

By: /s/ Ronald C. Weigner

Ronald C. Weigner
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.31

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated March 10, 2000 ("Employment Agreement") by and between MKS Instruments, Inc., a Massachusetts corporation (the "Corporation"), and Donald Smith of Belmont, MA (the "Employee").

WHEREAS, the Corporation and the Employee desire to provide for the employment of the Employee by the Corporation:

NOW, THEREFORE, in consideration of the premises and the mutual promises contained herein, the Corporation and the Employee hereby agree as follows:

(1) TERM OF EMPLOYMENT: The Corporation hereby employs the Employee, and the Employee hereby accepts employment with the Corporation, for a period commencing as of March 10, 2000 and continuing from month to month thereafter until terminated as provided in this Section (1). The Corporation may terminate the employment of the Employee under this Employment Agreement at any time after September 10, 2000 by giving written notice to the Employee stating its election to terminate the employment of the Employee under this Employment Agreement. The employment of the Employee under this Employment Agreement shall terminate six (6) months after the date of receipt by the Employee of such notice; provided, however, that the employment of the Employee under this Employment Agreement is subject to prior termination as hereinafter provided in Section (5). The Employee may terminate his employment with the Corporation under this Employment Agreement at any time after September 10, 2000 by giving written notice to the Corporation stating his election to terminate his employment under this Employment Agreement, provided, however, that the employment of the Employee under this Employment Agreement is subject to prior termination as hereinafter provided in Section (5).

The employment of the employee under this Employment Agreement shall terminate between twelve (12) and six (6) months after the date of receipt by the Corporation of such notice as set forth below:

IF NOTICE IS RECEIVED BY THE CORPORATION:	DATE OF TERMINATION OF EMPLOYMENT OF EMPLOYEE:
Between September 10, 2000 and October 9, 2000	Twelve (12) months after date of receipt of written notice by Corporation

Between October 10, 2000 and November 9, 2000	Eleven (11) months after date of receipt of written notice by Corporation.
Between November 10, 2000 and December 9, 2000	Ten (10) months after date of receipt of written notice by Corporation
Between December 10, 2000 and January 9, 2001	Nine (9) months after date of receipt of written notice by Corporation
Between January 10, 2001 and February 9, 2001	Eight (8) months after date of receipt of written notice by Corporation
Between February 10, 200l and March 9, 2001.	Seven (7) months after date of receipt of written notice by Corporation
Anytime on or after March 10, 2001	Six (6) months after date of receipt of written notice by Corporation

(2) CAPACITY: The Employee shall be employed by the Corporation in the position of Vice President and Chief Technical Officer and shall perform such duties as shall be assigned to Employee by the President and Chief Operating Officer of the Corporation, or his designee.

(3) EXTENT OF SERVICES: During the term of employment of the Employee under this Employment Agreement, the Employee shall devote his full time to, and use his best efforts in the furtherance of, the business of the Corporation and shall not engage in any other business activity which interferes in any way with the Employee's performance of his duties to the Corporation, whether or not such business activity is pursued for gain or any other pecuniary advantage, without the prior written consent of the Corporation.

(4) COMPENSATION: In consideration of the services to be rendered by the Employee under this Employment Agreement, the Corporation agrees to pay, and the Employee agrees to accept, the following compensation:

(a) BASE SALARY: A base salary at the rate of $150,000 per year for the term of employment of the Employee under this Employment Agreement. The base salary shall be payable in equal biweekly installments subject to usual withholding requirements. This salary will be reviewed annually according to the established practices of the company. No overtime pay will be paid to the Employee by the Corporation.

(b) INCENTIVE: For each calendar year of the corporation during the term of employment of the Employee under this Employment Agreement, the Employee shall be entitled to participate in a Management Incentive Program pursuant to the terms of which the Employee may receive compensation in addition to his base salary if the Corporation attains its consolidated financial goals during such calendar year of the Corporation. The "targeted" additional compensation goal for the Employee shall be 40% of his earnings. The Management Incentive Program, including the consolidated financial goals established by the Corporation for the calendar year and the formula to be used to determine the payment of amounts under the Management Incentive Program, will be communicated to the Employee in writing prior to the beginning of each calendar year of the Corporation.

If there shall be any disagreement between the Corporation and the Employee as to the calculation of the Management Incentive Bonus in any calendar year of the Corporation during the term of employment of the Employee under this Employment Agreement, the decision of the independent Public Accounting firm of the corporation as to the amount of the Management Incentive Bonus of the Corporation shall be conclusive and binding on the corporation and the Employee. The Employee shall be entitled to inspect any certificate of such independent public accounting firm as to the calculation of the Management Incentive Bonus of the Corporation in any calendar year of the Corporation during the term of employment of the Employee under this Employment Agreement.

Incentive payments shall be payable to the Employee on or before March 31 after the end of each calendar year of the Corporation during the term of employment of the Employee under this Employment Agreement.

The Employee will not receive any payment under the Management Incentive Program for any calendar year in which the Employee is not actively employed on the last day of that calendar year, but the Employee need not be actively employed at the time the payment is actually made.

(c) MKS INSTRUMENTS PROFIT SHARING AND RETIREMENT SAVINGS PLAN: The Employee shall be eligible to become a participant under the profit sharing plan of the Corporation on fulfilling the conditions set forth in the MKS Instruments Profit Sharing and Retirement Savings Plan of the Corporation.

(d) VACATION: The Employee shall be entitled to an annual vacation leave of 20 days at full pay during each year of this Employment Agreement, subject to the Employee arranging such vacation so as not to affect adversely the ability of the Corporation to transact its necessary business. Vacation shall accrue at the rate of 13.33 hours per month.

(e) LIFE INSURANCE: The Corporation shall provide, and pay all of the premiums for, term life insurance in the amount of $250,000 for the Employee during the term of employment of the Employee under this Employment Agreement in accordance with the term life insurance plan of the Corporation.

(f) MEDICAL/DENTAL INSURANCE: The Corporation shall provide group medical/dental insurance for the Employee and his eligible family members under the Plans of the Corporation applicable to the Employee during the term of employment of the Employee under this Employment Agreement. In addition, the Corporation shall provide to the Employee a supplemental medical/dental plan that will reimburse the Employee for the cost of any medically necessary services not paid under the primary medical/dental insurance plans, subject to an annual limit of $2,500.

(g) OTHER BENEFITS: The Corporation shall provide other benefits for the employee under the Plans of the Corporation applicable to the Employee during the term of employment of the Employee under this Employment Agreement.

(5) TERMINATION: The employment of the Employee under this Employment Agreement shall terminate:

(a) On the expiration of the period of employment as provided in Section (1).

(b) Upon the death of the Employee.

(c) At the election of the Corporation (i) if the Employee shall fail, or refuse, to perform the services required of him under this Employment Agreement, or (ii) if the Employee shall fail, or refuse, to perform the other covenants and agreements required of him under this Employment Agreement, or (iii) "for cause", which term shall mean acts or actions detrimental to the best interests of the Corporation.

(6) PAYMENT UPON TERMINATION:

(a) If the employment of the Employee is terminated on the expiration of the period of employment as provided in Section (1), the Employee shall not be entitled to any compensation, and the Corporation shall have no obligation to pay the employee any compensation, except as is provided in this Employment Agreement.

(b) If the employment of the Employee is terminated by death, the Corporation shall pay to the estate of the Employee the compensation which would otherwise be payable to the Employee at the end of the month in which his death occurs.

(c) In the event the employment of the Employee is terminated at the election of the Corporation pursuant to Section (5) (c) hereof, the Employee shall only be entitled to his base salary through the last day of actual employment or the date of termination, whichever is earlier.

(7) TRADE SECRETS: The Employee covenants and agrees that he will communicate to the Corporation, and will not divulge or communicate to any other person, partnership, corporation or other entity without the prior written consent of the Corporation, any trade secrets of the Corporation or confidential information relating to the business of the Corporation or any one connected with the Corporation, and that such trade secrets and confidential information shall not be used by the Employee either on his own behalf or for the benefit of others or disclosed by the Employee to any one, except to the Corporation, during or after the term of employment of the Employee under this Employment Agreement.

(8) INVENTIONS AND PATENTS:

(a) The Employee shall make prompt full disclosure in writing to the Corporation of all inventions, improvements and discoveries, whether or not patentable, which the Employee conceives, devises, makes, discovers, develops, perfects or first reduces to practice, either alone or jointly with others, during the term of employment of the Employee under this Employment Agreement, which relate in any way to the fields, products or business of the Corporation, including development and research, whether during or out of the usual hours of work or on or off the premises of the Corporation or by use of the facilities of the Corporation or otherwise and whether at the request or suggestion of the Corporation or otherwise (all such inventions, improvements and discoveries being hereinafter called the "Inventions"), including any Inventions, whether or not patentable, conceived, devised, made, discovered, developed, perfected or first reduced to practice by the Employee after the employment of the Employee under this Employment Agreement is terminated if the Inventions were conceived by the Employee during the term of employment of the Employee under this Employment Agreement. Any Inventions, whether or not patentable which relate in any way to the fields, products or business of the Corporation, conceived, devised, made, discovered, developed, perfected or first reduced to practice by the Employee within six (6) months of the date termination of the employment of the Employee under this Employment Agreement shall be conclusively presumed to have been conceived during the term of employment of the Employee under this Employment Agreement.

(b) The Employee agrees that the Inventions shall be the sole and exclusive property of the Corporation.

(c) The Employee agrees to assist the Corporation and its nominees in every reasonable way (entirely at its or their expense) to obtain for the benefit of the Corporation letters patent for the Inventions and trademarks, trade names and copyrights relating to the Inventions, and any renewals, extensions or reissues thereof, in any and all countries, and agrees to make, execute, acknowledge and deliver, at the request of the Corporation, all written applications for letters patent, trademarks, trade names and copyrights relating to the Inventions and any renewals, extensions or reissues thereof, in any and all countries, and all documents with respect thereto, and all powers of attorney relating thereto and, without further compensation, to assign to the Corporation or its nominee all the right, title and interest of the Employee in and to such applications and to any patents, trademarks, trade names or copyrights which shall thereafter issue on any such applications, and to execute, acknowledge and deliver all other documents deemed necessary by the Corporation to transfer to or vest in the Corporation all of the right, title and interest of the Employee in and to the Inventions, and to such trademarks, trade names, patents and copyrights together with exclusive rights to make, use, license and sell them throughout the world.

(d) The Employee agrees that even though his employment is terminated under this Employment Agreement he will, at any time after such termination of employment, carry out and perform all of the agreements of Subsections (8) (a) and (8) (c) above, and will at any time and at all times cooperate with the Corporation in the prosecution and/or defense of any litigation which may arise in connection with the Inventions, provided, however, that should such services be rendered after termination of employment of the Employee under this Employment Agreement, the Employee shall be paid reasonable compensation on a per diem basis.

(e) The Employee agrees to make and maintain adequate and current written records of all Inventions in the form of notes, sketches, drawings, or reports relating thereto, which records shall be and remain the property of, and available to, the Corporation at all times.

(f) The Employee agrees that he will, upon leaving the employment of the Corporation, promptly deliver to the Corporation all originals and copies of disclosures, drawings, prints, letters, notes, and reports either typed, handwritten or otherwise memorialized, belonging to the Corporation which are in his possession or under his control and the Employee agrees that he will not retain or give away or make copies of the originals or copies of any such disclosures, drawings, prints, letters, notes or reports.

(9) PROPERTY OF CORPORATION: All files, records, reports, documents, drawings, specifications, equipment, and similar items relating to the business of the Corporation, whether prepared by the Employee or otherwise coming into his possession, shall remain the exclusive property of the Corporation and shall not be removed by the Employee from the premises of the Corporation under any circumstances whatsoever without the prior written consent of the Corporation. Provided, however, the Employee may remove such files and other items from the premises of the Corporation if required to do so during the course of his duties or if required to work at home.

(10) NON-COMPETITION:

(a) During the term of employment of the Employee under this Employment Agreement, and during a period of one (1) year after termination of employment of the Employee under this Employment Agreement without regard to the cause of termination of employment and whether or not such termination of employment was caused by the Employee or by the Corporation, (i) the Employee shall not engage, either directly or indirectly, in any manner or capacity, in any business or activity which is competitive with any business or activity conducted by the Corporation; (ii) the Employee shall not work for or employ, directly or indirectly, or cause to be employed by another, any person who was an employee, officer or agent of the Corporation or of any of its subsidiaries at any time during a period of twelve (12) months prior to the termination of the employment of the Employee under this Employment Agreement nor shall the Employee form any partnership with, or establish any business venture in cooperation with, any such person which is competitive with any business or activity of the Corporation; (iii) the Employee shall not give, sell or lease any goods or services competitive with the goods or services of the Corporation or its subsidiaries to any person, partnership, corporation or other entity who purchased goods or services from the Corporation or its subsidiaries within one (1) year before the termination of the employment of the Employee under this Employment Agreement; (iv) the Employee shall not have any financial interest, or participate as a director, officer, stockholder, partner, employee, consultant or otherwise, in any corporation, partnership or other entity which is competitive with any business or activity conducted by the Corporation.

(b) The Corporation and the Employee agree that the services of the Employee are of a personal, special, unique and extraordinary character, and cannot be replaced by the Corporation without great difficulty, and that the violation by the Employee of any of his agreements under this Section (10) would damage the goodwill of the Corporation and cause the Corporation irreparable harm which could not reasonably or adequately be compensated in damages in an action at law, and that the agreements of the Employee under this Section (10) may be enforced by the Corporation in equity by an injunction or restraining order in addition to being enforced by the Corporation at law.

(c) In the event that this Section (10) shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too long a period of time or over too great a range of activities, it shall be interpreted to extend only over the maximum period of time or range of activities as to which it may be enforceable.

(11) NOTICE: Any and all notices under this Employment Agreement shall be in writing and, if to the Corporation, shall be duly given if sent to the Corporation by registered or certified mail, postage prepaid, return receipt requested, at the address of the Corporation set forth under its name below or at such other address as the Corporation may hereafter designate to the Employee in writing for the purpose, and if to the Employee, shall be duly given if delivered to the Employee by hand or if sent to the Employee by registered or certified mail, postage prepaid, return receipt requested, at the address of the Employee set forth under his name below or at such other address as the Employee may hereafter designate to the Corporation in writing for the purpose.

(12) ASSIGNMENT: The rights and obligations of the Corporation under this Employment Agreement shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Corporation. The rights and obligations of the Employee under this Employment Agreement shall inure to the benefit of, and shall be binding upon, the heirs, executors and legal representatives of the Employee.

(13) ENTIRE AGREEMENT AND SEVERABILITY

(a) This Employment Agreement and the MKS offer of employment letter dated March 10, 2000 (and the documents referenced herein) supersede any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of the Employee by the Corporation and contain all of the covenants and agreements between the parties with respect to such employment. Each party to this Employment Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or any one acting on behalf of any party, which are not embodied herein, and that no other agreement, statement or promise not contained in this Employment Agreement or referenced herein, or as amended, shall be valid and binding. Any modification of this Employment Agreement will be effective only if it is in writing signed by both parties to this Employment Agreement.

(b) If any provision in this Employment Agreement is held by a court Of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

(c) All pronouns used herein shall include the masculine, feminine, and neuter gender as the context requires.

(14) GOVERNING LAW: This Employment Agreement shall be governed by, and construed and enforced in accordance with, the internal laws of The Commonwealth of Massachusetts without reference to conflict of laws principles.

IN WITNESS WHEREOF, the parties hereto have executed, in the Commonwealth of Massachusetts, this Employment Agreement as a sealed instrument, all as of the day, month and year first written above.

MKS INSTRUMENTS, INC.

By: /s/ Peter Younger

Peter Younger
President and Chief Operating Officer
6 Shattuck Road, Andover, MA 01810

/s/ Donald Smith

Donald Smith

Address: 10 Village Hill Rd.

Belmont, MA 02478

5
1,000

3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
48,440
21,264
41,987
678
33,316
152,120
76,045
43,429
199,178
50,992
4,998
0
0
113
141,289
199,178
65,556
65,556
35,513
35,513
14,624
62
429
14,990
5,659
9,331
0
0
0
9,331
0.38
0.36