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 September 30, 1999

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 November 10, 1999: 24,576,129

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,784	$ 11,188
Short-term investments	34,562	--
Trade accounts receivable, net	32,613	20,674
Inventories	25,559	24,464
Deferred tax asset	4,515	698
Other current assets	3,267	1,509
Total current assets	124,300	58,533
Property, plant and equipment, net	31,004	32,725
Other assets	6,646	4,974
Total assets	$161,950	$ 96,232
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 10,940	$ 9,687
Current portion of long-term debt	2,075	2,058
Current portion of capital lease obligations	1,031	1,074
Accounts payable	7,059	3,677
Accrued compensation	8,239	3,985
Other accrued expenses	5,273	5,280
Income taxes payable	1,317	1,279
Total current liabilities	35,934	27,040
Long-term debt	10,472	12,042
Long-term portion of capital lease obligations	1,256	1,744
Deferred tax liability	638	117
Other liabilities	460	463
Commitments and contingencies (Note 10)		
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; 24,438,705 and 18,053,167 issued and outstanding at September 30, 1999 and December 31, 1998, respectively	113	113
Additional paid-in capital	82,408	48
Retained earnings	29,221	52,479
Accumulated other comprehensive income	1,448	2,186
Total stockholders' equity	113,190	54,826
Total liabilities and stockholders' equity	$161,950	$ 96,232

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 September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
Net sales	$ 50,621	$ 28,834	$ 132,740	$ 109,023
Cost of sales	28,876	18,140	76,983	65,162
Gross profit	21,745	10,694	55,757	43,861
Research and development	3,482	2,568	9,754	9,469
Selling, general and administrative	10,264	7,808	28,556	26,965
Income from operations	7,999	318	17,447	7,427
Interest expense	341	356	1,025	1,140
Interest income	672	122	1,346	194
Other income (expense), net	681	77	849	(81)
Income before income taxes	9,011	161	18,617	6,400
Provision for income taxes	2,974	19	5,645	747
Non-recurring deferred tax credit (Note 9)	--	--	(3,770)	--
Net income	$ 6,037	$ 142	$ 16,742	$ 5,653
Historical net income per share:				
Basic	$ 0.25	$ 0.01	$ 0.75	$ 0.31
Diluted	$ 0.24	$ 0.01	$ 0.72	$ 0.30
Historical weighted average common shares outstanding:				
Basic	24,458	18,053	22,193	18,053
Diluted	25,628	18,553	23,327	18,680
Pro forma data:				
Historical income before income taxes	$ 9,011	$ 161	$ 18,617	$ 6,400
Pro forma provision for income taxes assuming C corporation tax	3,334	61	6,984	2,432
Pro forma net income	$ 5,677	$ 100	$ 11,633	$ 3,968
Pro forma net income per share:				
Basic	$ 0.23	$ 0.01	$ 0.52	$ 0.22
Diluted	$ 0.22	$ 0.01	$ 0.50	$ 0.21
Pro forma weighted average common shares outstanding:				
Basic	24,458	18,053	22,193	18,053
Diluted	25,558	18,434	23,133	18,513

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

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

	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Cash flows from operating activities:		
Net income	$ 16,742	$ 5,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,632	4,776
Loss (gain) on disposal of property, plant and equipment	(184)	67
Non-recurring deferred tax credit	(3,770)	--
Other	75	143
Forward exchange contract gain realized	(78)	(1,186)
Changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable	(12,038)	12,805
(Increase) decrease in inventories	(1,093)	5,222
(Increase) decrease in other current assets	(1,913)	626
Increase (decrease) in accrued expenses and other current liabilities	4,592	(4,729)
Increase (decrease) in accounts payable	3,991	(4,399)
Net cash provided by operating activities	10,956	18,978
Cash flows from investing activities:		
Purchases of investments	(34,562)	--
Purchases of property, plant and equipment	(3,891)	(2,619)
Proceeds from sales of property, plant & equipment	262	38
Increase in other assets	(707)	(178)
Cash received to settle forward exchange contracts	78	1,186
Net cash used in investing activities	(38,820)	(1,573)
Cash flows from financing activities:		
Proceeds from short-term borrowings	6,692	741
Payments on short-term borrowings	(6,179)	(741)
Principal payments on long-term debt	(1,534)	(1,528)
Proceeds from issuance of common stock, net of issuance costs	82,062	--
Proceeds from exercise of stock options	37	--
Cash distributions to stockholders	(40,000)	(6,000)
Principal payments under capital lease obligations	(768)	(996)
Net cash provided by (used in) financing activities	40,310	(8,524)
Effect of exchange rate changes on cash and cash equivalents	150	(348)
Increase in cash and cash equivalents	12,596	8,533
Cash and cash equivalents at beginning of period	11,188	2,511
Cash and cash equivalents at end of period	$ 23,784	$ 11,044
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 896	$ 1,053
Income taxes	$ 6,394	$ 1,479
Noncash transactions during the period:		
Equipment acquired under capital leases	$ 237	$ 1,086

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 September 30, 1999 and for the three and nine months ended September 30, 1999 and 1998 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 statement 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, 1998 audited financial statements and notes thereto.

2) NEW ACCOUNTING PRONOUNCEMENTS

In June, 1998, the Financial Accounting Standards Board issued 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 Company adopted the provisions of SFAS No. 133 effective April 1, 1999. The impact of adopting SFAS No. 133 was the recording of an unrealized loss of $16,000 in other comprehensive income.

The Company hedges a portion of its forecasted foreign currency denominated intercompany sales of inventory, over a maximum period of fifteen months, using forward exchange contracts and currency options. These derivatives are designated as cash-flow hedges, and changes in their fair value are carried in accumulated other comprehensive income until the underlying forecasted transaction occurs. Once the underlying forecasted transaction is realized, the appropriate gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive income to cost of sales. The Company utilizes an interest rate swap to fix the interest rate on certain variable term loans in order to minimize the effect of changes in interest rates on earnings. Since the adoption of SFAS No. 133, net unrealized losses in the three and six months ended September 30, 1999 of $753,000 and $515,000, respectively, from derivatives designated as cash-flow hedging instruments have been recorded in accumulated other comprehensive income. Net realized gains and losses recorded in earnings in the three and six months ended September 30, 1999 were immaterial. As of September 30, 1999, the amount that will be reclassified from accumulated other comprehensive income to earnings over the next twelve months is an unrealized loss of $515,000. The ineffective portion of the derivatives is primarily related to option premiums. The amortization of the premiums in the three and six months ended September 30, 1999 was $97,000 and $192,000, respectively. The Company hedges certain of its intercompany payables with currency options. Since these derivatives hedge existing amounts that are denominated in foreign currencies, the options do not qualify for hedge accounting under SFAS No. 133. The changes in fair value of these options as well as the underlying exposures are generally offsetting and are recorded in other income or expense. The amounts of the changes were immaterial for the three and six months ended September 30, 1999.

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.

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

4) CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of the following at September 30, 1999:

Cash and money market instruments	$19,788
Commercial paper	3,996
	$23,784

Cash and cash equivalents at December 31, 1998 consisted of cash and money market instruments.

Short-term investments consist of the following at September 30, 1999:

Federal Government and Government Agencies obligations	$20,178
Corporate obligations	10,599
Commercial paper	3,785
	$34,562

5) HISTORICAL AND PRO FORMA NET INCOME PER SHARE

Historical net income per share is not meaningful 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. 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, at a pro forma rate of 38% for 1998 and the six months ended June 30, 1999, and at a pro forma rate of 37% for the three months ended September 30, 1999.

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

	Three Months Ended September 30,			
	1999		1998	
	Pro Forma	Historical	Pro Forma	Historical
Net income	$ 5,677	$ 6,037	$ 100	$ 142
Shares used in net income per common share-basic	24,458	24,458	18,053	18,053
Effect of dilutive securities:				
Employee and director stock options	1,100	1,170	381	500
Shares used in net income per common share-diluted	25,558	25,628	18,434	18,553
Net income per common share-basic	$ 0.23	$ 0.25	$ 0.01	$ 0.01
Net income per common share-diluted	$ 0.22	$ 0.24	$ 0.01	$ 0.01

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

	Nine Months Ended September 30, 1999 Pro Forma	1999 Historical	1998 Pro Forma	1998 Historical
Net income	$11,633	$16,742	$ 3,968	$ 5,653
Shares used in net income per common share-basic	22,193	22,193	18,053	18,053
Effect of dilutive securities:				
Employee and director stock options	940	1,134	460	627
Shares used in net income per common share-diluted	23,133	23,327	18,513	18,680
Net income per common share-basic	$ 0.52	$ 0.75	$ 0.22	$ 0.31
Net income per common share-diluted	$ 0.50	$ 0.72	$ 0.21	$ 0.30

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 zero, 98,570, 8,000 and 32,857 shares of common stock were outstanding during the three months ended September 30, 1999 and 1998, and the nine months ended September 30, 1999 and 1998, 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:

	September 30, 1999	December 31, 1998
Raw material	$ 6,718	$ 7,544
Work in process	6,633	5,718
Finished goods	12,208	11,202
	$25,559	$24,464

7) STOCKHOLDERS' EQUITY

In March 1999, the Company amended its Articles of Organization to: i) eliminate the authorized shares of Class A Common Stock and Class B Common Stock; ii) increase the authorized number of shares of Common Stock to 50,000,000 shares; iii) authorize 2,000,000 shares of Preferred Stock, $0.01 par value per share; and iv) provide that each outstanding share of Class A Common Stock and Class B Common Stock be converted into one share of Common Stock.

On April 5, 1999 the Company closed the initial public offering of its Common Stock. In connection with this offering and the exercise of an over-allotment option by the underwriters, the Company sold 6,375,000 shares of Common Stock at a price of $14.00 per share. The net proceeds to the Company were approximately $82,000,000. Underwriting discounts and commissions were approximately $6,200,000, and other offering costs were approximately $1,000,000.

On April 5, 1999 the Company distributed $40,000,000, which was the estimated amount of the Company's undistributed S corporation earnings as of the day prior to the closing of the offering.

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

Total comprehensive income was as follows:

	Three Months Ended September 30, 1999	1998
Net income	$ 6,037	$ 142
Other comprehensive income, net of taxes:		
Changes in value of financial instruments designated as hedges of currency and interest rate exposures	(504)	--
Foreign currency translation adjustment	574	320
Unrealized gain (loss) on investments	(59)	(206)
Other comprehensive income, net of taxes	11	114
Total comprehensive income	$ 6,048	$ 256

	Nine Months Ended September 30, 1999	1998
Net income	$16,742	$ 5,653
Other comprehensive income, net of taxes:		
Non-recurring deferred tax charge to comprehensive income (Note 9)	(660)	--
Impact of adopting SFAS No. 133	(16)	--
Changes in value of financial instruments designated as hedges of currency and interest rate exposures	(250)	--
Foreign currency translation adjustment	(165)	34
Unrealized gain (loss) on investments	353	(377)
Other comprehensive income, net of taxes	(738)	(343)
Total comprehensive income	$16,004	$ 5,310

8) SEGMENT INFORMATION AND SIGNIFICANT CUSTOMER

Segment Information for the nine months ended September 30, 1999 and 1998:

		North America	Far East	Europe	Total
Net sales to unaffiliated customers	1999	$ 92,694	$ 25,620	$ 14,426	$132,740
	1998	76,285	17,433	15,305	109,023
Intersegment net sales	1999	$ 24,465	$ 527	$ 707	$ 25,699
	1998	19,717	196	755	20,668
Income from operations	1999	$ 14,915	$ 1,391	$ 1,141	$ 17,447
	1998	4,991	1,181	1,255	7,427

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

Segment Information for the three months ended September 30, 1999 and 1998:

		North America	Far East	Europe	Total
Net sales to unaffiliated customers	1999	$ 35,700	$ 9,873	$ 5,048	$ 50,621
	1998	18,942	4,949	4,943	28,834
Intersegment net sales	1999	$ 8,693	$ 200	$ 197	$ 9,090
	1998	5,111	79	319	5,509
Income from operations	1999	$ 6,828	$ 768	$ 403	$ 7,999
	1998	(483)	296	505	318

The Company had one customer comprising 25% and 10% of net sales for the three months ended September 30, 1999 and 1998, respectively, and 23% and 17% for the nine months ended September 30, 1999 and 1998, respectively.

9) INCOME TAXES

Prior to its initial public offering, the Company was treated as an S corporation for federal income tax purposes. As an S corporation, the Company was not subject to federal, and certain state income taxes. The Company terminated its S corporation status upon the closing of the initial public offering and became subject to taxes at C corporation tax rates. This change in tax status and tax rates resulted in a non-recurring, non-cash deferred tax credit to net income of $3,770,000 and a deferred tax charge to other comprehensive income of $660,000.

10) 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 is currently estimated to be between $2,500,000 and $3,500,000. The amount of the additional distribution will be charged directly to historical retained earnings and will have no impact on net income or earnings per share. No current shareholders, other than the pre-IPO stockholders, are parties to the Tax Indemnification and S Corporation Distribution Agreement.

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 Results" for factors that could cause actual results to differ materially from any forward-looking statements made by MKS.

MKS's quarterly net sales have fluctuated primarily due to the decline in the semiconductor capital equipment market and the semiconductor device market in 1998 and the recovery in those markets during 1999. MKS's net sales declined in each of the first three quarters of 1998. In response to the decline, MKS implemented a comprehensive cost containment program that included manufacturing outsourcing, expense reductions, and the elimination of some temporary and contract positions. Worldwide staffing levels were decreased from 1,195 at the end of 1997 to 821 at the end of 1998. As a result of these actions, MKS maintained quarterly profitability during the decline despite lower net sales.

In the third quarter of 1999, MKS's net sales increased sequentially for the fourth consecutive quarter. Net sales increased 15% as compared to the second quarter of 1999. The increase was primarily due to increased sales to companies in the semiconductor industry, thin film markets and to other markets for energy, pharmaceutical and other applications.

The comparisons of the results of operations for the three and nine months ending September 30, 1999 as compared to the three and nine months ending September 30, 1998 have been significantly impacted by the decline in the semiconductor capital equipment market in 1998, the cost containment program implemented by MKS as a result of the decline, and the recovery in those markets during 1999. 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 September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.0	62.9	58.0	59.8
Gross profit	43.0	37.1	42.0	40.2
Research and development	6.9	8.9	7.4	8.7
Selling, general and administrative	20.3	27.1	21.5	24.7
Income from operations	15.8	1.1	13.1	6.8
Interest income (expense), net	0.7	(0.8)	0.3	(0.8)
Other income (expense), net	1.3	0.3	0.6	(0.1)
Income before income taxes	17.8	0.6	14.0	5.9
Provision for income taxes	5.9	0.1	4.3	0.7
Non-recurring deferred tax credit	--	--	(2.9)	--
Net income	11.9%	0.5%	12.6%	5.2%
Pro forma data:				
Historical income before income taxes	17.8%	0.6%	14.0%	5.9%
Pro forma provision for income taxes	6.6	0.3	5.2	2.3
Pro forma net income	11.2%	0.3%	8.8%	3.6%

Results of Operations

Net Sales. Net sales increased 75.6% to $50.6 million for the three months ended September 30, 1999 from $28.8 million for the three months ended September 30, 1998. International net sales were approximately $14.9 million for the three months ended September 30, 1999 or 29.5% of net sales and $10.2 million for the three months ended September 30, 1998 or 35.5% of net sales. Net sales increased 21.8% to $132.7 million for the nine months ended September 30, 1999 from $109.0 million in the same period of 1998. The increases in net sales were due to increased sales volume of MKS's existing products in the United States and Far East 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 43.0% for the three months ended September 30, 1999 from 37.1% for the three months ended September 30, 1998, and to 42.0% for the nine months ended September 30, 1999 from 40.2% for the same period of 1998. The increases were primarily due to fuller utilization of existing manufacturing capacity as a result of increased net sales.

Research and Development. Research and development expense increased 35.6% to $3.5 million or 6.9% of net sales for the three months ended September 30, 1999 from $2.6 million or 8.9% of net sales for the three months ended September 30, 1998 due to increased spending of $0.4 million for development materials related to projects in process and increased incentive compensation expense. Research and development expenses increased 3.0% to $9.8 million for the nine months ended September 30, 1999 from $9.5 million for the same period of 1998, due to increased spending for development materials related to projects in process.

Selling, General and Administrative. Selling, general and administrative expenses increased 31.5% to $10.3 million or 20.3% of net sales for the three months ended September 30, 1999 from $7.8 million or 27.1% of net sales for the three months ended September 30, 1998. The increase was due primarily to increased incentive compensation expense of $1.6 million, professional fees, and other selling expenses. Selling, general and administrative expenses increased 5.9% to $28.6 million or 21.5% of net sales for the nine months ended September 30, 1999 from $27.0 million or 24.7% of net sales for the same period of 1998. The increase was due to increased incentive compensation expense.

Interest Income (Expense), Net. During the three and nine months ended September 30, 1999, the Company generated interest income of $0.7 million and $1.3 million, respectively, primarily from the invested net proceeds of the initial public offering, offset by interest expense on outstanding debt. Net interest expense for the three and nine months ended September 30, 1998 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 $0.7 million in the three months ended September 30, 1999 represents a distribution from one of MKS's mutual insurance carriers upon the initial public offering of the insurance carrier. Other income of $0.8 million for the nine months ended September 30, 1999 also includes this distribution and gains recorded from foreign exchange contracts which did not qualify for hedge accounting. Other income of $0.1 million in the three months ended September 30, 1998 represents gains recorded from foreign exchange contracts which did not qualify for hedge accounting. Other expense of $0.1 million for the nine months ended September 30, 1998 includes $0.7 million of costs associated with MKS's planned initial public offering in early 1998, offset by translation gains on intercompany payables and 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 MKS's financial position or results of operations. The derivative instruments currently held by MKS 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.

Pro Forma 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 its initial public offering on April 5, 1999, MKS's status as an S corporation was terminated and it became subject to taxes as a C corporation. The pro forma provision for income taxes reflects the estimated tax expense MKS would have incurred had it been subject to federal and state income taxes as a C corporation. The pro forma provision differs from the federal statutory rate due primarily to the effects of state and foreign taxes and certain tax credits. The pro forma provision for the three months ended September 30, 1999 reflects a pro forma tax rate of 37%. This rate differs from the pro forma tax rate of 38% for 1998 due to increased tax credits in 1999.

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. On April 5, 1999 the Company closed the initial public offering of its Common Stock. In connection with this offering and the exercise of an over-allotment option by the underwriters, the Company sold 6,375,000 shares of Common Stock at a price of $14.00 per share. The net proceeds to the Company were approximately $82,000,000 and were received in the second quarter of 1999. Underwriting discounts and commissions were approximately $6,200,000, and other offering costs were approximately $1,000,000. On April 5, 1999 MKS distributed $40,000,000, which is the estimated amount of its undistributed S Corporation earnings as of the day prior to the closing of the offering.

Operations provided cash of $11.0 million for the nine months ended September 30, 1999 primarily impacted by net income, depreciation and changes in the levels of accounts payable, accrued expenses, and accounts receivable. Investing activities utilized cash of $38.8 million for the nine months ended September 30, 1999 primarily from purchasing short-term investments with the net proceeds from the initial public offering and for the purchase of property and equipment. Financing activities provided cash of $40.3 million, with net proceeds from the initial public offering of $82.1 million offset by the distribution to stockholders of $40.0 million.

Working capital was $88.4 million as of September 30, 1999, an increase of $56.9 million from December 31, 1998. MKS has a combined $30.0 million line of credit with two banks, expiring December 31, 1999, all of which is available. MKS is currently in the process of renewing the line of credit with the two banks.

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 is currently estimated to be between $2,500,000 and $3,500,000. The amount of the additional distribution will be charged directly to historical retained earnings and will have no impact on net income or earnings per share. No current shareholders, other than the pre-IPO 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.

State of Readiness

MKS designed and began implementation of a multi-phase Year 2000 project which consists of:

- assessment of the corporate systems and operations including both information technology and non-information technology that could be affected by the Year 2000 problem

- remediation of non-compliant systems and components

- testing of systems and components following remediation

MKS, under the guidance of its Information Technology Steering Committee, has focused its Year 2000 review on four areas:

- internal computer software and hardware

- product compliance

- facilities and manufacturing equipment

- third-party compliance

Internal Computer Software and Hardware. MKS uses information technology for its internal infrastructure, which consists of its main enterprise systems which include the systems used, in part, for purchase orders, invoicing, shipping and accounting, and individual workstations, including personal computers, and its network systems.

Because MKS's business and manufacturing systems, such as its main enterprise systems, are essential to its business, financial condition and results of operations, MKS began its assessment of these systems prior to its other non-critical information technology systems. MKS began its assessment in the fall of 1997, and in November 1997, MKS developed a remediation plan for all identified noncompliant business and manufacturing systems. This remediation plan was implemented in January 1998. By July 1998, MKS had installed new systems or upgraded existing systems. Based upon post-implementation testing and review, management believes that all business and manufacturing systems are Year 2000 compliant.

MKS's personal computer based systems were assessed in early 1998. MKS believes that all non-compliant hardware and software was identified by March 1998, at which time it made a list prioritizing databases to be remedied. Critical databases were identified and were scheduled for remediation prior to other databases. Remediation plans to convert the databases were initiated in November 1998. MKS believes its critical and non-critical personal computer based systems are Year 2000 compliant.

Product Compliance. Throughout 1998, MKS assessed and addressed the Year 2000 compliance of its products. This assessment resulted in the identification of MKS's products that were compliant and non-compliant. The substantial majority of MKS's products were deemed to be compliant.

The date related functions of all non-compliant products, other than certain residual gas analysis products, are believed by MKS to be non-critical in that such noncompliance would not affect the independent performance of the product; would not cause the MKS product to cease operating on any particular date; and independently would not pose a safety risk. MKS believes that Year 2000 problems associated with non-compliant residual gas analysis products will also be non-critical. However, these products contain components of other manufacturers and cannot be tested and therefore it is possible that such products could cause unanticipated performance problems. MKS made available to its customers a list which describes Year 2000 readiness of its products.

Facilities and Manufacturing Equipment. Some aspects of MKS's facilities and manufacturing equipment may include embedded technology, such as microcontrollers. The Year 2000 problem could cause a system failure or miscalculation in such facilities or manufacturing equipment which could disrupt MKS's operations. Affected areas include security systems, elevator controls, voice mail and phone systems, clean room environmental controls, numerically controlled production machinery and computer based production equipment. MKS organized a team of experienced managers in November 1998 to assess the potential problems in these areas. An assessment of all facilities and manufacturing equipment was conducted through December 1998, and a remediation plan was developed in January 1999. MKS believes its facilities and manufacturing equipment are Year 2000 compliant.

Third-Party Compliance. MKS has relationships with third-parties including customers and vendors and suppliers of goods, services and computer interfaces. The failure of such persons to implement and execute Year 2000 compliance measures in a timely manner, if at all, could, among other things:

- adversely affect MKS's ability to obtain components in a timely manner

- cause a reduction in the quality of components obtained by MKS

- cause a reduction, delay or cancellation of customer orders received by MKS or a delay in payments by its customers for products shipped

- result in the loss of services that would be necessary for MKS to operate in the normal course of business

MKS assessed which of these third-party goods, services and interfaces were critical to its operations and developed and mailed a standard survey to each third-party deemed critical in January 1998. Based on this survey and its review of survey data, MKS believes all critical third-parties have achieved satisfactory compliance.

Costs

MKS's costs to date associated with assessment, remediation and testing activities concerning the Year 2000 problem have been approximately $3 million. MKS has funded these activities principally through cash provided by operations and existing leasing lines of credit. It is not possible for MKS to completely estimate the costs incurred in its remediation effort as many of its employees have focused and will continue to focus significant efforts in evaluating MKS's Year 2000 state of readiness and in remediating problems that have arisen, and will continue to arise, from such evaluation.

Contingency Plan

MKS has not formulated contingency plans related to the failure of its or a third-party's Year 2000 remediation efforts. Contingency plans for the failure to implement compliance procedures have not been completed because it is the intent of MKS to complete all required modifications and to test modifications thoroughly prior to December 31, 1999.

MKS believes it has taken steps in its multi-phase Year 2000 project to identify and remediate material Year 2000 related issues. However, there can be no assurance that MKS has identified and remediated all material Year 2000 related issues. Additionally, there can be no assurance that unexpected delays or problems will not occur that would have a material adverse effect on the Company's financial condition or results of operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Cyclicality of the Semiconductor Industry

MKS estimates that approximately 60% of its sales during 1997 and 1998 were to semiconductor capital equipment manufacturers and semiconductor device manufacturers, and MKS expects that sales to such customers will continue to account for a substantial majority of its sales. MKS's business depends substantially upon the capital expenditures of semiconductor device manufacturers, which in turn depend upon the demand for semiconductors and other products utilizing semiconductors. Periodic reductions in demand for the products manufactured by semiconductor capital equipment manufacturers and semiconductor device manufacturers may adversely affect MKS's 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 industry experienced a significant decline, which caused a number of MKS's customers to reduce their orders. MKS 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 industry could have a material adverse effect on MKS's business, financial condition and results of operations.

Asian Economies

The financial markets in Asia, one of MKS's principal international markets, have experienced significant turbulence. Turbulence in the Asian markets can adversely affect MKS's net sales and results of operations. MKS's direct net sales to customers in Asian markets have been approximately 17% to 20% of total net sales for the past three years. MKS's sales include both direct sales to the semiconductor industry in Asia, as well as to semiconductor capital equipment manufacturers that derive a significant portion of their revenue from sales to the Asian semiconductor industry. Turbulence in the Asian markets began to adversely affect the semiconductor device manufacturers and semiconductor capital equipment manufacturers in 1997 and 1998.

Fluctuations in Operating Results

A substantial portion of MKS's shipments occur shortly after an order is received and therefore MKS operates 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 MKS's products from one or more customers could occur with limited advance notice and could have a material adverse effect on MKS's results of operations in any particular period.

A significant percentage of MKS's 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 MKS's results of operations. Factors that could cause fluctuations in MKS's 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
- Specific features requested by customers

For example, MKS was in the process of increasing production capacity when the semiconductor capital equipment market began to experience a significant downturn in 1996. This downturn had a material adverse effect on MKS's 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 MKS's 1998 and first quarter 1999 operating results. As a result of the factors discussed above, it is likely that MKS will in the future experience quarterly or annual fluctuations and that, in one or more future quarters, MKS's operating results will fall below the expectations of public market analysts or investors. In any such event, the price of MKS's common stock could decline significantly.

Customer Concentration

MKS's five largest customers in 1996, 1997 and 1998 accounted for approximately 26%, 32% and 24%, respectively, of its net sales. The loss of a major customer or any reduction in orders by such customers, including reductions due to market or competitive conditions, would likely have a material adverse effect on MKS's business, financial condition and results of operations. During 1998, one customer, Applied Materials, Inc., accounted for approximately 16% of MKS's net sales. While the Company has entered into a purchase contract with Applied Materials, Inc. that expires in 2000 unless it is extended by mutual agreement, none of MKS's significant customers, including Applied Materials, Inc., has entered into an agreement requiring it to purchase any minimum quantity of MKS's products. The demand for MKS's products from its 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. The Company's future success will continue to depend upon:

- MKS's ability to maintain relationships with existing key customers

- MKS's ability to attract new customers

- the success of MKS's customers in creating demand for their capital equipment products which incorporate MKS's products

Competition

The markets for MKS's products are highly competitive. The Company's competitive success often depends upon factors outside of its 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, the Company's success will depend in part on its ability to have semiconductor device manufacturers specify that the Company's products be used at their semiconductor fabrication facilities. In addition, MKS 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. MKS's success depends on its products being designed into new generations of equipment for the semiconductor industry. The Company must develop products that are technologically current so that they are positioned to be chosen for use in each successive new generation of semiconductor equipment. If its products are not chosen by its customers, the Company's net sales may be reduced during the lifespan of its customers' products.

Risks Related to Year 2000 Compliance

MKS has implemented a multi-phase Year 2000 project consisting of assessment and remediation, and testing following remediation. MKS cannot, however, be certain that it has identified all of the potential risks. Failure by the Company to identify and remediate all material Year 2000 risks could adversely affect its business, financial condition and results of operations. MKS has identified the following risks:

- MKS cannot be certain that the entities on whom it relies for certain goods and services that are important for its business will be successful in addressing all of their software and systems problems in order to operate without disruption in the year 2000 and beyond

- MKS's customers or potential customers may be affected by Year 2000 issues that may, in part:

    - cause a delay in payments for products shipped

    - cause customers to expend significant resources on Year 2000 compliance matters, rather than investing in MKS's products

- MKS has not developed a contingency plan related to the failure of its or a third-party's Year 2000 remediation efforts and may not be prepared for such an event

Further, while MKS has made efforts to notify its customers who have purchased potential non-compliant products, the Company cannot be sure that customers who purchased such products will not assert claims against MKS alleging that such products should have been Year 2000 compliant at the time of purchase, which could result in costly litigation and divert management's attention.

Expansion into New Markets

MKS plans to build upon its experience in manufacturing and selling gas measurement, control and analysis products used by the semiconductor industry by designing and selling such products for applications in other industries which use production processes similar to those used in the semiconductor industry. For example, MKS plans to expand its business to the manufacture of, among other things, hard coatings to minimize wear on cutting tools. Any failure by the Company to penetrate additional markets would limit its ability to reduce its vulnerability to downturns in the semiconductor industry and could have a material adverse effect on MKS's business, financial condition and results of operations.

MKS has limited experience selling its products in certain markets outside the semiconductor industry. The Company cannot be certain that it will be successful in the expansion of its business outside the semiconductor industry. MKS's future success will depend in part on its ability to:

- identify new applications for MKS's products

- adapt MKS's products for such applications

- market and sell such products to customers

Expansion of Manufacturing Capacity

MKS's ability to increase sales of certain products depends in part upon its ability to expand manufacturing capacity for such products in a timely manner. If the Company is unable to expand manufacturing capacity on a timely basis or to manage such expansion effectively, its customers could seek such products from others and its market share could be reduced. Because the semiconductor industry is subject to rapid demand shifts which are difficult to foresee, MKS 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 the Company's fixed operating expenses and if sales levels do not increase to offset the additional expense levels associated with any such expansion, the Company's business, financial condition and results of operations could be materially adversely affected.

International Operations and Sales

International sales, which include sales by MKS's foreign subsidiaries, but exclude direct export sales which were less than 10% of total net sales, accounted for approximately 30% of net sales in 1996, 27% of net sales in 1997 and 32% of net sales in 1998. MKS anticipates that international sales will continue to account for a significant portion of net sales. In addition, certain of MKS's key domestic customers derive a significant portion of their revenues from sales in international markets. Therefore, MKS's 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 MKS's net sales and results of operations and the Company could experience losses with respect to its hedging activities. Unfavorable currency fluctuations could require MKS to increase prices to foreign customers which could result in lower net sales to such customers. Alternatively, if MKS does not adjust the prices for its products in response to unfavorable currency fluctuations, its results of operations could be adversely affected. In addition, sales made by MKS's foreign subsidiaries are denominated in the currency of the country in which these products are sold and the currency MKS receives in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. While MKS enters into forward exchange contracts and local currency purchased options to reduce currency exposure arising from these sales and associated intercompany purchases of inventory, MKS cannot be certain that its efforts will be adequate to protect the Company against significant currency fluctuations or that such efforts will not expose MKS to additional exchange rate risks.

Need to Retain and Attract Key Employees

MKS's 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 and adverse effect on MKS's business, financial condition and results of operations. MKS believes that its future success will depend in part on its ability to attract and retain highly skilled technical, financial, managerial and marketing personnel. Competition for such personnel is intense, and MKS cannot be certain that it will be successful in attracting and retaining such personnel.

Intellectual Property Matters

Although MKS seeks to protect its intellectual property rights through patents, copyrights, trade secrets and other measures, MKS cannot be certain that:

- it will be able to protect its technology adequately
- competitors will not be able to develop similar technology independently
- any of its pending patent applications will be issued
- intellectual property laws will protect its intellectual property rights
- third parties will not assert that MKS's products infringe patent, copyright or trade secrets of such parties

Litigation may be necessary in order to enforce MKS's patents, copyrights or other intellectual property rights, to protect its 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 the Company's 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 recent filings with the Securities and Exchange Commission. There were no material changes in MKS's exposure to market risk from December 31, 1998.

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
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.

November 11, 1999

By: /s/ Ronald C. Weigner

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

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