

UNITED STATES-  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

OR

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

Commission file number: 0-20853

ANSYS, Inc.

(exact name of registrant as specified in its charter)

DELAWARE

04-3219960

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

275 Technology Drive, Canonsburg, PA  
(Address of principal executive offices)

15317  
(Zip Code)

724-746-3304

(Registrant's telephone number, including area code)

Indicate by a 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  No

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The number of shares of the Registrant's Common Stock, par  
value \$.01 per share, outstanding as of May 7, 2001 was  
14,296,077 shares.

ANSYS, INC. AND SUBSIDIARIES

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Trademarks used in this Form 10-Q: ANSYS(R) and DesignSpace(R) are registered trademarks of SAS IP, Inc., a wholly-owned subsidiary of ANSYS, Inc.

## PART I - FINANCIAL INFORMATION

## Item 1. - Financial Statements:

ANSYS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share information)

	March 31, 2001	Dec. 31, 2000
	----- (Unaudited)	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,294	\$ 6,313
Short-term investments	24,680	41,227
Accounts receivable, less allowance for doubtful accounts of \$2,330 in 2001 and \$2,350 in 2000	10,896	14,403
Other current assets	1,922	2,269
Deferred income taxes	753	695
	-----	-----
Total current assets	55,545	64,907
Long-term investment	500	500
Property and equipment, net	5,233	5,152
Capitalized software costs, net	471	574
Goodwill, net	9,229	9,227
Other intangibles, net	8,271	8,970
Deferred income taxes	4,752	4,895
	-----	-----
Total assets	\$ 84,001	\$ 94,225
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 234	\$ 459
Accrued bonuses	2,762	4,869
Other accrued expenses and liabilities	4,853	6,429
Deferred revenue	15,084	13,104
	-----	-----
Total current liabilities	22,933	24,861
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized	-	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 16,584,758 shares issued in both 2001 and 2000	166	166
Additional paid-in capital	37,243	37,588
Less treasury stock, at cost: 2,345,889 shares held in 2001 and 1,451,692 shares held in 2000	(25,449)	(15,127)
Retained earnings	49,108	46,737
	-----	-----
Total stockholders' equity	61,068	69,364
	-----	-----
Total liabilities and stockholders' equity	\$ 84,001	\$ 94,225
	=====	=====

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

ANSYS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data)  
(Unaudited)

	Three months ended	
	March 31, 2001	March 31, 2000
	-----	-----
Revenue:		
Software licenses	\$ 9,482	\$ 10,507
Maintenance and service	8,740	6,873
	-----	-----
Total revenue	18,222	17,380
Cost of sales:		
Software licenses	1,110	1,094
Maintenance and service	1,553	909
	-----	-----
Total cost of sales	2,663	2,003
Gross profit	15,559	15,377
Operating expenses:		
Selling and marketing	4,934	3,835
Research and development	3,915	3,411
Amortization	1,325	208
General and administrative	2,571	2,689
	-----	-----
Total operating expenses	12,745	10,143
Operating income	2,814	5,234
Other income	644	997
	-----	-----
Income before income tax provision	3,458	6,231
Income tax provision	1,087	1,744
	-----	-----
Net income	2,371	4,487
	=====	=====
Net income per basic common share:		
Basic earnings per share	\$ 0.16	\$ 0.28
Weighted average shares - basic	14,914	16,253
Net income per diluted common share:		
Diluted earnings per share	\$ 0.15	\$ 0.27
Weighted average shares - diluted	15,493	16,845

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

ANSYS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

	Three months ended	
	March 31, 2001	March 31, 2000
	-----	-----
Cash flows from operating activities:		
Net income	\$ 2,371	\$ 4,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,964	750
Deferred income tax provision	85	18
Provision for bad debts	-	21
Gain on sale of equity securities	-	(151)
Change in operating assets and liabilities:		
Accounts receivable	3,507	966
Other current assets	347	390
Accounts payable, accrued expenses and liabilities and customer prepayments	(3,908)	123
Deferred revenue	1,980	2,441
	-----	-----
Net cash provided by operating activities	6,346	9,045
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(722)	(682)
Acquisition payments	(333)	(100)
Purchase of short-term investments	(5,023)	(6,000)
Maturities of short-term investments	21,570	2,437
Repayment of stockholder loan	-	250
Proceeds from sale of equity securities	-	151
	-----	-----
Net cash provided by (used in) investing activities	15,492	(3,944)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	86	74
Purchase of treasury stock	(11,199)	(3,209)
Proceeds from exercise of stock options	451	692
	-----	-----
Net cash used in financing activities	(10,662)	(2,443)
Effect of exchange rate fluctuations	(195)	-
Net increase in cash and cash equivalents	10,981	2,658
Cash and cash equivalents, beginning of period	6,313	10,401
	-----	-----
Cash and cash equivalents, end of period	\$ 17,294	\$ 13,059
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 1,590	\$ 87

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

ANSYS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2001  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements included herein have been prepared by ANSYS, Inc. (the "Company") in accordance with generally accepted accounting principles for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements as of and for the three months ended March 31, 2001 should be read in conjunction with the Company's consolidated financial statements (and notes thereto) included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. Accordingly, the accompanying statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

REPORT OF INDEPENDENT ACCOUNTANTS

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To the Board of Directors and Shareholders of  
ANSYS, Inc:

We have reviewed the accompanying condensed consolidated balance sheet of ANSYS, Inc. and its Subsidiaries as of March 31, 2001, and the related condensed consolidated statements of income and of cash flows for the three-month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of ANSYS, Inc. and its Subsidiaries as of December 31, 2000 and the related consolidated statements of income, of stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated January 30, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

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Pittsburgh, Pennsylvania

April 17, 2001

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ANSYS, Inc. (the "Company") is a leading international supplier of analysis and engineering software for optimizing the design of new products. The Company is committed to providing the most open and flexible analysis solutions to suit customer requirements for engineering software in today's competitive marketplace. In addition, the Company partners with leading design software suppliers to develop state-of-the-art computer-aided design ("CAD") integrated products. Sales, support and training for customers are provided primarily through the Company's global network of independent ANSYS Support Distributors ("ASDs"). The Company distributes and supports its ANSYS(R), DesignSpace(R) and ICEM CFD product lines through its ASDs, certain direct sales offices, as well as a network of independent resellers and dealers. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the three-month periods ended March 31, 2001 and March 31, 2000 and with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 2000.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements below concerning future trends regarding the Company's intentions related to continued investments in sales and marketing and research and development, plans related to future capital spending, the sufficiency of existing cash and cash equivalent balances to meet future working capital and capital expenditure requirements, as well as statements which contain such words as "anticipates", "intends", "believes", "plans" and other similar expressions. The Company's actual results could differ materially from those set forth in forward-looking statements. Certain factors that might cause such a difference include risks and uncertainties detailed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the 2000 Annual Report to Shareholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99 to this Form 10-Q.

Results of Operations

Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

Revenue. The Company's total revenue increased 4.8% for the 2001 first quarter to \$18.2 million from \$17.4 million in the 2000 first quarter. Reported revenue for the first quarter of 2001 was adversely affected by a modification of the company's revenue recognition policy related to noncancellable annual software leases.



The Company modified its previous revenue recognition policy for annual software leases to comply with a Technical Practice Aid ("TPA") recently issued by the American Institute of Certified Public Accountants. Prior to the revenue recognition modification, the Company recognized a portion of the license fee from annual leases upon inception or renewal of the lease, while the remaining portion was recognized ratably over the lease period. The TPA now requires all revenue from noncancellable annual software lease licenses to be recognized ratably over the lease term. The Company estimates that revenue would have been approximately \$21.3 million in the first quarter of 2001, or a 22.4% increase over the prior year quarter, had this modification not been made. Additionally, sales and renewals of annual software leases have historically been most significant in the first quarter of the fiscal year. As a result, management anticipates that the magnitude of the impact of this modification will be most apparent in the first quarter as compared to the remaining quarters in 2001.

Software license revenue decreased 9.8% in the 2001 quarter to \$9.5 million from \$10.5 million in the 2000 quarter. The quarterly revenue decrease was primarily the result of the annual lease revenue recognition policy modification discussed above. Excluding the impact of this modification, software license revenue would have increased approximately 16.8% to \$12.3 million. This increase was primarily the result of approximately \$2.0 million in revenue related to the August 2000 acquisition of ICEM CFD Engineering ("ICEM CFD").

Maintenance and service revenue increased 27.2% for the 2001 quarter to \$8.7 million from \$6.9 million in the 2000 quarter. Reported maintenance and service revenue would have been approximately \$9.0 million, or 31.0% higher than the prior year quarter, had the revenue recognition modification not occurred. This increase was primarily the result of maintenance contracts sold in association with increased paid-up license sales in recent quarters, as well as approximately \$700,000 in quarterly revenue related to the acquisition of ICEM CFD.

Of the Company's total revenue for both the 2001 and 2000 quarters, approximately 56.5% and 43.5% were attributable to international and domestic sales, respectively.

Cost of Sales and Gross Profit. The Company's total cost of sales increased 33.0% to \$2.7 million, or 14.6% of total revenue, in the 2001 first quarter from \$2.0 million, or 11.5% of total revenue, for the 2000 first quarter. The increase in the 2001 quarter was principally attributable to costs associated with consulting services provided by ICEM CFD.

As a result of the foregoing, the Company's gross profit increased 1.2% to \$15.6 million in the 2001 quarter from \$15.4 million in the 2000 quarter.

Selling and Marketing. Total selling and marketing expenses increased from \$3.8 million, or 22.1% of total revenue in the 2000 quarter, to \$4.9 million, or 27.1% of total revenue in the 2001 quarter. The increase primarily resulted from higher salaries and related headcount costs associated with both the acquisition of ICEM CFD, as well as the hiring of personnel to bolster the ANSYS direct sales organization. Higher third party commission costs associated with direct sales to certain of the Company's major account customers also contributed to the increase. The Company anticipates that it will continue to make significant investments throughout the remainder of 2001 in its global sales and marketing organization to strengthen its competitive position, to enhance major account sales activities and to support its worldwide sales channels and marketing strategies.

Research and Development. Research and development expenses increased 14.8% in the 2001 first quarter to \$3.9 million, or 21.5% of total revenue, from \$3.4 million, or 19.6% of total revenue, in the 2000 quarter. The increase primarily resulted from higher salaries and related headcount costs associated with both the acquisition of ICEM CFD, as well as the hiring of development personnel within the ANSYS product creation organization. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area throughout the remainder of 2001.

Amortization. Amortization expense increased to \$1.3 million in the 2001 first quarter from \$208,000 in the prior year quarter. The increase resulted from amortization associated with the acquisition of ICEM CFD.

General and Administrative. General and administrative expenses decreased from \$2.7 million, or 15.5% of total revenue, in the 2000 first quarter, to \$2.6 million, or 14.1% of total revenue, in the first quarter of 2001. The decrease primarily resulted from a \$500,000 one-time legal charge in the first quarter of 2000 that did not occur in the 2001 quarter. The reduced legal costs were partially offset by the general and administrative costs incurred by ICEM CFD.

Other Income. Other income decreased to \$644,000 in the 2001 first quarter from \$997,000 in the prior year quarter. The decrease was primarily attributable to lower interest-bearing cash and short-term investment balances, as well as a \$151,000 one-time gain in the 2000 quarter related to the sale of investment securities.

Income Tax Provision. The Company's effective rates of taxation were 31.4% for the 2001 quarter and 28.0% for the 2000 quarter. The effective rate increased from the prior year quarter as a result of certain non-deductible amortization expense associated with the acquisition of ICEM CFD. These rates are lower than the federal and state combined statutory rate as a result of the utilization of a foreign sales corporation, as well as the generation of research and experimentation credits.

Net Income. The Company's net income in the 2001 quarter was \$2.4 million as compared to \$4.5 million in the 2000 quarter. Diluted earnings per share decreased to \$.15 in the 2001 quarter as compared to \$.27 in the 2000 quarter as a result of the decrease in net income. The weighted average shares used in computing net income per diluted common share were 15.5 million in the 2001 quarter and 16.8 million in the 2000 quarter. Excluding the estimated effects of the modification of the Company's revenue recognition policy for noncancellable annual software leases and amortization associated with the acquisition of ICEM CFD, net income increased 18.9% to \$5.3 million, or \$0.34 diluted earnings per share.

#### Liquidity and Capital Resources

As of March 31, 2001, the Company had cash, cash equivalents and short-term investments totaling \$42.0 million and working capital of \$32.6 million, as compared to cash, cash equivalents and short-term investments of \$47.5 million and working capital of \$40.0 million at December 31, 2000. The short-term investments are generally investment grade and liquid, which allows the Company to minimize interest rate risk and to facilitate liquidity in the event an immediate cash need arises.

The Company's operating activities provided cash of \$6.3 million for the three months ended March 31, 2001 and \$9.0 million for the three months ended March 31, 2000. The decrease in the Company's cash flow from operations for the 2001 quarter as compared to the 2000 quarter was a result of increased payments for both income taxes and other accrued operating expenditures. Net cash generated by operating activities provided sufficient resources to fund increased headcount and capital needs, as well as to sustain share repurchase activity under the Company's announced Share Repurchase Program.

The Company's investing activities provided cash of \$15.5 million for the three months ended March 31, 2001 and used cash of \$3.9 million for the three months ended March 31, 2000. Cash generated in the 2001 first quarter related primarily to net maturities of short-term investments. In the 2000 first quarter, the use of cash related principally to net purchases of short-term investments. The Company currently plans additional capital spending of approximately \$1.8 million throughout the remainder of 2001; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.

Financing activities used cash of approximately \$10.7 million and \$2.4 million for the three months ended March 31, 2001 and 2000, respectively. In both quarters, cash outlays related to the Company's share repurchase program were partially offset by proceeds from the issuance of common stock under employee stock purchase and option plans.

The Company believes that existing cash and cash equivalent balances together with cash generated from operations will be sufficient to meet the Company's working capital and capital expenditure requirements through the remainder of fiscal 2001. The Company's cash requirements in the future may also be financed through additional equity or debt financings. There can be no assurance that such financings can be obtained on favorable terms, if at all.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings from time to time that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties, and it is possible that these matters may be resolved unfavorably to the Company.

Item 2. Changes in Securities

(c) The following information is furnished in connection with securities sold by the Registrant during the period covered by this Form 10-Q which were not registered under the Securities Act. The transactions constitute sales of the Registrant's Common Stock, par value \$.01 per share, upon the exercise of vested options issued pursuant to the Company's 1994 Stock Option and Grant Plan, issued in reliance upon the exemption from registration under Rule 701 promulgated under the Securities Act and issued prior to the Registrant becoming subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act of 1934, as amended.

Number of Month/Year -----	Number of Shares -----	Employees -----	Aggregate Exercise Price -----
January 2001	4,000	1	\$1,600.00
February 2001	1,000	1	\$1,275.00
March 2001	250	1	\$ 318.75

Item 3. Defaults upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Item 5. Other information

Not Applicable.

Item 6. Exhibits and Reports Filed on Form 8-K

(a) Exhibits.

- 15 Independent Accountants' Letter Regarding Unaudited Financial Information
- 99 Certain Factors Regarding Future Results

(b) Reports on Form 8-K.

Not Applicable.

SIGNATURES

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.

ANSYS, Inc.

Date: May 7, 2001

By: /s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief  
Executive Officer

Date: May 7, 2001

By: /s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer

EXHIBIT INDEX

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Exhibit

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No.

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15

Independent Accountants' Letter  
Regarding Unaudited Financial  
Information

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Certain Factors Regarding Future  
Results

May 7, 2001

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

RE: ANSYS, Inc.

Form S-8 (Registration No. 333-8613) Relating to the 1996 Stock Option  
and Grant Plan and the Employee Stock Purchase Plan

Commissioners:

We are aware that our report dated April 17, 2001 on our review of the interim financial information of ANSYS, Inc. as of and for the period ended March 31, 2001 and included in the Company's quarterly report on Form 10-Q for the quarter then ended is incorporated by reference in the registration statement referred to above.

Very truly yours,

/s/ PricewaterhouseCoopers LLP  
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## EXHIBIT 99 Certain Factors Regarding Future Results

Information provided by the Company or its spokespersons may from time to time contain forward-looking statements concerning projected financial performance, market and industry segment growth, product development and commercialization or other aspects of future operations. Such statements will be based on the assumptions and expectations of the Company's management at the time such statements are made. The Company cautions investors that its performance (and, therefore, any forward-looking statement) is subject to risks and uncertainties. Various important factors including, but not limited to, the following may cause the Company's future results to differ materially from those projected in any forward-looking statement.

**POTENTIAL FLUCTUATIONS IN OPERATING RESULTS:** The Company may experience significant fluctuations in future quarterly operating results. Fluctuations may be caused by many factors, including the timing of new product releases or product enhancements by the Company or its competitors; the size and timing of individual orders, including a fluctuation in the demand for and the ability to complete large contracts; software errors or other product quality problems; competition and pricing; customer order deferrals in anticipation of new products or product enhancements; reduction in demand for the Company's products; changes in operating expenses; changes in the mix of software license and maintenance and service revenue; personnel changes and general economic conditions. A substantial portion of the Company's operating expenses are related to personnel, facilities and marketing programs. The level of personnel and related expenses cannot be adjusted quickly and is based, in significant part, on the Company's expectation for future revenue. The Company does not typically experience significant order backlog. Further, the Company has often recognized a substantial portion of its revenue in the last month of a quarter, with this revenue frequently concentrated in the last weeks or days of a quarter. During certain quarterly periods, the Company has been dependent upon receiving large orders of perpetual licenses involving the payment of a single up-front fee and, more recently, has shifted the business emphasis of its products to provide a collaborative solution to the Company's customers. This emphasis has increased the Company's average order size and increased the related sales cycle time for the larger orders and may have the effect of increasing the volatility of the Company's revenue and profit from period to period. As a result, product revenue in any quarter is substantially dependent on sales completed in the latter part of that quarter, and revenue for



any future quarter is not predictable with any significant degree of accuracy.

**STOCK MARKET AND STOCK PRICE VOLATILITY:** Market prices for securities of software companies have generally been volatile. In particular, the market price of the Company's common stock has been and may continue to be subject to significant fluctuations as a result of factors affecting the Company, the software industry or the securities markets in general. Such factors include, but are not limited to, declines in trading price that may be triggered by the Company's failure to meet the expectations of securities analysts and investors. The Company cannot provide assurance that in such circumstances the trading price of the Company's common stock will recover or that it will not experience a further decline. Moreover, the trading price could be subject to additional fluctuations in response to quarter-to-quarter variations in the Company's operating results, material announcements made by the Company or its competitors, conditions in the software industry generally or other events and factors, many of which are beyond the Company's control.

**RAPIDLY CHANGING TECHNOLOGY; NEW PRODUCTS; RISK OF PRODUCT DEFECTS:** The markets for the Company's products are generally characterized by rapidly changing technology and frequent new product introductions that can render existing products obsolete or unmarketable. A major factor in the Company's future success will be its ability to anticipate technological changes and to develop and introduce in a timely manner enhancements to its existing products and new products to meet those changes. If the Company is unable to introduce new products and respond quickly to industry changes, its business, financial condition and results of operations could be materially adversely affected. The introduction and marketing of new or enhanced products require the Company to manage the transition from existing products in order to minimize disruption in customer purchasing patterns. There can be no assurance that the Company will be successful in developing and marketing, on a timely basis, new products or product enhancements, that its new products will adequately address the changing needs of the marketplace or that it will successfully manage the transition from existing products. Software products as complex as those offered by the Company may contain undetected errors or failures when first introduced or as new versions are released, and the likelihood of errors is increased as a result of the Company's commitment to accelerating the frequency of its product releases.

There can be no assurance that errors will not be found in new or enhanced products after commencement of commercial shipments. Any of these problems may result in the loss of or delay in market acceptance, diversion of development resources, damage to the Company's reputation or increased service and warranty costs, any of which could have a materially adverse effect on the Company's business, financial condition and results of operations.

**DEPENDENCE ON DISTRIBUTORS:** The Company continues to distribute its products principally through its global network of 36 independent, regional ASDs. The ASDs sell ANSYS and DesignSpace products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of ANSYS technical support. The ASDs have more immediate contact with most customers who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the ASDs. Difficulties in ongoing relationships with ASDs, such as delays in collecting accounts receivable, failure to meet performance criteria or to promote the Company's products as aggressively as the Company expects and differences in the handling of customer relationships could adversely affect the Company's performance. Additionally, the loss of any major ASD for any reason, including an ASD's decision to sell competing products rather than the Company's products, could have a materially adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its ASDs to continue to dedicate the resources necessary to promote the Company's products and to support a larger installed base of the Company's products. If the ASDs are unable or unwilling to do so, the Company may be unable to sustain revenue growth.

**COMPETITION:** The CAD, CAE and computer-aided manufacturing ("CAM") markets are intensely competitive. In the traditional CAE market, the Company's primary competitors include MSC Software Corporation and Hibbitt, Karlsson and Sorenson, Inc. The Company also faces competition from smaller vendors of specialized analysis applications in fields such as computational fluid dynamics. In addition, certain integrated CAD suppliers such as Parametric Technology Corporation, Structural Dynamics Research Corporation and Dassault Systemes provide varying levels of design analysis, optimization and verification capabilities as part of their product offerings. The entrance of new competitors would likely intensify competition in all or a portion of the overall CAD, CAE and CAM markets. Some of the Company's current and possible future competitors have greater financial, technical, marketing and other resources than the Company, and some have well established relationships with current and potential

customers of the Company. It is also possible that alliances among competitors may emerge and rapidly acquire significant market share or that competition will increase as a result of software industry consolidation. Increased competition may result in price reductions, reduced profitability and loss of market share, any of which would materially adversely affect the Company's business, financial condition and results of operations.

**DEPENDENCE ON SENIOR MANAGEMENT AND KEY TECHNICAL PERSONNEL:** The Company is highly dependent upon the ability and experience of its senior executives and its key technical and other management employees. Although the Company has an employment agreement with one executive, the loss of this employee, or any of the Company's other key employees, could adversely affect the Company's ability to conduct its operations.

**RISKS ASSOCIATED WITH INTERNATIONAL ACTIVITIES:** A significant portion of the Company's business comes from outside the United States. Risks inherent in the Company's international business activities include imposition of government controls, export license requirements, restrictions on the export of critical technology, political and economic instability, trade restrictions, changes in tariffs and taxes, difficulties in staffing and managing international operations, longer accounts receivable payment cycles and the burdens of complying with a wide variety of foreign laws and regulations. Effective patent, copyright and trade secret protection may not be available in every foreign country in which the Company sells its products. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risks.

Additionally, countries in certain international regions have continued to experience weaknesses in their currency, banking and equity markets. These weaknesses could adversely affect consumer demand for the Company's products and ultimately the Company's financial condition or results of operations.

Recently, the World Trade Organization ruled that tax incentives provided to U.S.-based companies that export their products via a foreign sales corporation are prohibited tax subsidies. In September 2000, the House of Representatives approved the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act"). The Act generally repeals the foreign sales corporation and implements an extraterritorial income tax benefit. The Act provides short-term and long-term relief for foreign sales corporations in existence as of September 30, 2000. The short-term transition rules permit foreign sales corporations to retain benefits through December 31, 2001. Any prospective changes regarding tax benefits associated with the Company's

export sales may directly impact the Company's effective tax rate.

**DEPENDENCE ON PROPRIETARY TECHNOLOGY:** The Company's success is highly dependent upon its proprietary technology. Although the Company was awarded a patent by the U.S. Patent and Trademark Office for its web-based reporting technology, the Company generally relies on contracts and the laws of copyright and trade secrets to protect its technology. Although the Company maintains a trade secrets program, enters into confidentiality agreements with its employees and distributors and limits access to and distribution of its software, documentation and other proprietary information, there can be no assurance that the steps taken by the Company to protect its proprietary technology will be adequate to prevent misappropriation of its technology by third parties, or that third parties will not be able to develop similar technology independently. Although the Company is not aware that any of its technology infringes upon the rights of third parties, there can be no assurance that other parties will not assert technology infringement claims against the Company, or that, if asserted, such claims will not prevail.

**INCREASED RELIANCE ON PERPETUAL LICENSES:** The Company has historically maintained stable recurring revenue from the sale of monthly lease licenses and noncancellable annual leases for its software products. More recently, the Company has experienced an increase in customer preference for perpetual licenses that involve payment of a single up-front fee and that are more typical in the computer software industry. While revenue generated from monthly lease licenses and noncancellable annual leases currently represents a portion of the Company's software license revenue, to the extent that perpetual license revenue continues to increase as a percentage of total software license revenue, the Company's revenue in any period will increasingly depend on sales completed during that period.

**RISKS ASSOCIATED WITH ACQUISITIONS:** The Company has consummated and may continue to consummate certain strategic acquisitions in order to provide increased capabilities to its existing products, enter new product and service markets or enhance its distribution channels. The ability of the Company to integrate the acquired businesses, including delivering sales and support, ensuring continued customer commitment, obtaining further commitments and challenges associated with expanding sales in particular markets and retaining key personnel, will impact the success of these acquisitions. If the Company is unable to properly and timely integrate the acquired businesses, there could be a materially adverse effect on the Company's business, financial condition and results of operations.

On August 31, 2000, the Company acquired ICEM CFD Engineering. The Company cannot guarantee that it will be able to fully realize the benefits or strategic objectives it sought in acquiring ICEM CFD. The acquisition of ICEM CFD was accounted for as a purchase and, as a result, a significant amount of goodwill and other identifiable intangible assets were recorded, the amortization of which will adversely affect the Company's results of operations in future periods.

GENERAL CONTINGENCIES: The Company is subject to various investigations, claims and legal proceedings from time to time that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company.