

**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, 2003

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**

(State or other jurisdiction of incorporation or organization)

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

**04-3219960**

(IRS Employer Identification No.)

**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

Indicate by a check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

The number of shares of the Registrant's Common Stock, par value \$.01 per share, outstanding as of May 9, 2003 was 14,812,263 shares.

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ANSYS INC. AND SUBSIDIARIES

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ANSYS, AI\*NASTRAN, AI\*Environment and DesignSpace are Trademarks or registered Trademarks of ANSYS Inc. and its subsidiaries located in the United States or other countries. NASTRAN is a registered Trademark of the National Aeronautics Space Administration. All other trademarks are the property of their respective owners.

## PART I – UNAUDITED FINANCIAL INFORMATION

## Item 1. - Financial Statements:

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

	March 31, 2003	Dec. 31, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,849	\$ 46,198
Short-term investments	14,944	14,934
Accounts receivable, less allowance for doubtful accounts of \$2,377 and \$1,560, respectively	18,878	15,875
Other current assets	15,751	13,737
Deferred income taxes	2,570	1,747
<b>Total current assets</b>	<b>88,992</b>	<b>92,491</b>
Long-term investment	486	486
Property and equipment, net	5,953	4,302
Capitalized software costs, net	949	971
Goodwill	30,212	18,615
Other intangibles, net	16,169	5,098
Deferred income taxes	4,572	5,038
<b>Total assets</b>	<b>\$ 147,333</b>	<b>\$ 127,001</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,133	\$ 627
Accrued bonuses	1,895	2,941
Other accrued expenses and liabilities	10,193	5,645
Deferred revenue	36,672	26,395
<b>Total current liabilities</b>	<b>49,893</b>	<b>35,608</b>
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	166	166
Additional paid-in capital	41,453	41,416
Less treasury stock, at cost: 1,882,099 and 2,014,999 shares, respectively	(28,998)	(30,337)
Retained earnings	83,667	79,388
Accumulated other comprehensive income	1,152	760
<b>Total stockholders' equity</b>	<b>97,440</b>	<b>91,393</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 147,333</b>	<b>\$ 127,001</b>

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)**

	Three months ended	
	March 31, 2003	March 31, 2002
Revenue:		
Software licenses	\$ 12,442	\$ 11,330
Maintenance and service	12,158	9,935
Total revenue	24,600	21,265
Cost of sales:		
Software licenses	1,179	1,037
Maintenance and service	2,894	1,814
Total cost of sales	4,073	2,851
Gross profit	20,527	18,414
Operating expenses:		
Selling and marketing	5,512	5,161
Research and development	5,656	4,819
Amortization	748	599
General and administrative	2,644	2,330
Total operating expenses	14,560	12,909
Operating income	5,967	5,505
Other income	534	171
Income before income tax provision	6,501	5,676
Income tax provision	2,222	1,788
Net income	\$ 4,279	\$ 3,888
Earnings per share - basic:		
Basic earnings per share	\$ 0.29	\$ 0.27
Weighted average shares – basic	14,627	14,588
Earnings per share - diluted:		
Diluted earnings per share	\$ 0.27	\$ 0.25
Weighted average shares – diluted	15,584	15,843

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)**

	Three months ended	
	March 31, 2003	March 31, 2002
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,279	\$ 3,888
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	1,379	1,146
Deferred income tax provision	(74)	72
Provision for bad debts	152	49
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	1,808	2,246
Other current assets	(1,011)	65
Accounts payable, accrued expenses and liabilities	(558)	(5,967)
Deferred revenue	5,493	1,390
<b>Net cash provided by operating activities</b>	<b>11,468</b>	<b>2,889</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(640)	(645)
Capitalization of internally developed software costs	(103)	—
Purchases of short-term investments	(4,985)	(6,976)
Maturities of short-term investments	4,975	35
Acquisition of CFX, net of cash acquired	(21,489)	—
Other acquisition payments	—	(3,436)
Purchase of long-term investment	—	(600)
<b>Cash used in investing activities</b>	<b>(22,242)</b>	<b>(11,622)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock under Employee Stock Purchase Plan	187	136
Purchase of treasury stock	—	(3,317)
Proceeds from exercise of stock options	1,189	2,061
<b>Net cash provided by (used in) financing activities</b>	<b>1,376</b>	<b>(1,120)</b>
Effect of exchange rate changes on cash	49	(235)
<b>Net decrease in cash and cash equivalents</b>	<b>(9,349)</b>	<b>(10,088)</b>
Cash and cash equivalents, beginning of period	46,198	28,545
<b>Cash and cash equivalents, end of period</b>	<b>\$ 36,849</b>	<b>\$ 18,457</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Income taxes	\$ 676	\$ 2,466

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, 2003**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements included herein have been prepared by ANSYS INC. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information for commercial and industrial companies and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The accompanying condensed consolidated financial statements 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 year ended December 31, 2002. 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, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

**2. Accumulated Other Comprehensive Income**

As of March 31, 2003 and December 31, 2002, accumulated other comprehensive income, as reflected on the condensed consolidated balance sheets, was comprised of foreign currency translation adjustments.

Comprehensive income for the three-month periods ended March 31, 2003 and 2002 was as follows:

(in thousands)	Three months ended	
	March 31, 2003	March 31, 2002
Comprehensive Income	\$ 4,671	\$ 3,593

**3. Other Current Assets**

The Company reports accounts receivable related to the portion of annual lease licenses and software maintenance that has not yet been recognized as revenue as a component of other current assets. These amounts totaled \$11.8 million and \$11.5 million as of March 31, 2003 and December 31, 2002, respectively.

#### 4. Acquisition of CFX

On February 4, 2003, the Company signed a definitive agreement to acquire 100% of the shares in certain entities and assets (hereinafter collectively referred to as "CFX") for a purchase price of approximately \$21.5 million in cash.

CFX is a leading supplier of computational fluid dynamics software and services. Computational fluid dynamics is the second largest segment of the computer-aided engineering market behind the solid mechanics segment, where ANSYS is well recognized as a global market leader. By acquiring CFX, ANSYS will broaden the scope of engineering physics solutions it can offer to its customers, gain access to new customers and enter new markets.

CFX represents the Company's second acquisition in the CFD market. The Company had previously acquired ICEM CFD Engineering in August 2000. CFX's mathematical representations for simulating the physics involved in CFD applications will complement the pre- and post-processing capabilities of ICEM CFD Engineering.

The operating results of CFX have been included in the Company's consolidated financial results since the date the acquisition was consummated, February 26, 2003.

The total purchase price was allocated to the assets and liabilities of CFX based upon their estimated fair market values. The allocation of the purchase price was based, in part, on an independent valuation and included an allocation of \$11.5 million to identifiable intangible assets (including \$9.5 million to existing software, \$1.1 million to trademark and \$900,000 to customer list) and \$11.4 million to goodwill. The trademark is not being amortized as it is determined to have an indefinite life; the remaining identifiable intangible assets are being amortized over three to five years.

In valuing deferred revenue for inclusion on the CFX opening balance sheet as of February 26, 2003, the Company complied with the fair value provisions of Emerging Issues Task Force ("EITF") Issue No. 01-3 "*Accounting in a Business Combination for Deferred Revenue of an Acquiree.*" In accordance with EITF 01-3, acquired deferred software license revenue of approximately \$4.8 million was recorded on the opening balance sheet.

CFX reported revenue of approximately \$19 million for its fiscal year ended March 31, 2002. The CFX business was a carve out entity from the acquiree and books and records were not maintained at a level where reliable stand-alone financial statements could be produced. As such, proforma information on revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share are indeterminable.

Allocation of the purchase price to the assets acquired and liabilities assumed has not been completed for this acquisition. Final determination of the fair values to be assigned may result in adjustments to the preliminary values assigned at the date of acquisition, and could principally impact goodwill and taxes.

## 5. Goodwill and Intangible Assets

As of March 31, 2003 and December 31, 2002, ANSYS had goodwill of \$30.2 million and \$18.6 million, respectively.

During the quarter ended March 31, 2003, the Company completed the annual impairment test for goodwill and determined that goodwill had not been impaired as of the test date, January 1, 2003.

As of March 31, 2003, the Company's intangible assets are classified as follows:

(in thousands)	Gross Carrying Amount	Accumulated Amortization
<b>Amortized intangible assets:</b>		
Core technology	\$ 14,359	\$ (2,598)
Non-compete agreements	2,392	(1,013)
Customer List	2,322	(752)
Total	<u>\$ 19,073</u>	<u>\$ (4,363)</u>
<b>Unamortized intangible assets:</b>		
Trademark	<u>\$ 1,459</u>	

Amortization expense for the amortized intangible assets reflected above is expected to be approximately \$2,532,000, \$2,742,000, \$2,707,000, \$2,363,000 and \$2,279,000 for the years ending December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

The changes in goodwill during the three-month periods ended March 31, 2003 and 2002 are as follows:

	Three months ended	
	March 31, 2003	March 31, 2002
Beginning Balance	\$ 18,615	\$ 16,412
CFX Acquisition	11,440	—
Sales territory acquisition	—	1,527
Other	157	4
Ending Balance	<u>\$ 30,212</u>	<u>\$ 17,943</u>



## 6. Stock-Based Compensation

The Company has elected to account for stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock-Based Compensation." No compensation expense has been recognized in the condensed consolidated statements of income as option grants generally are made with exercise prices equal to the fair value of the underlying common stock on the award date, which is typically the date of compensation measurement. Had compensation cost been determined based on the fair value at the date of grant, in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

	Three months ended	
	March 31, 2003	March 31, 2002
Net income, as reported	\$ 4,279	\$ 3,888
Add: Stock-based employee compensation expense included in net income, net of related tax effects	—	—
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(751)	(729)
Pro forma net income	\$ 3,528	\$ 3,159
Earnings per share:		
Basic – as reported	\$ 0.29	\$ 0.27
Basic – pro forma	\$ 0.24	\$ 0.22
Diluted – as reported	\$ 0.27	\$ 0.25
Diluted – pro forma	\$ 0.23	\$ 0.20

## 7. Geographic Information

Revenue by geographic area for the three months ended March 31, 2003 and 2002 is as follows:

	Three months ended	
	March 31, 2003	March 31, 2002
North America	\$ 9,417	\$ 9,752
Europe	9,061	6,585
Japan/Other International	6,122	4,928
Total revenue	\$ 24,600	\$ 21,265

## 8. Recently Issued Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 requires the recognition of liabilities for guarantees that are issued or modified subsequent to December 31, 2002. The Company implemented the provisions of this Interpretation on January 1, 2003 as required with no effect on its financial position, results of operations and cash flows.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risk and rewards of ownership among their owners and other parties involved. The provisions of Interpretation No. 46 are effective immediately to all variable interest entities created after January 1, 2003 and variable interest entities in which an enterprise obtains an interest after that date. For variable interest entities created before this date, the provisions are effective July 31, 2003. The Company presently has no variable interest entities created after January 1, 2003 and is currently evaluating the provisions of this Interpretation on its financial position, results of operations and cash flows.

On February 7, 2003, the American Institute of Certified Public Accountants issued Technical Practice Aid ("TPA") 5100.75, "Fair Value of PCS Renewals Based on Users Deployed and Software Revenue Recognition" and TPA 5100.76, "Fair Value in Multiple-Element Arrangements that Include Contingent Usage-Based Fees and Software Revenue Recognition." Effective January 1, 2003, the Company implemented the provisions of TPA 5100.75 and TPA 5100.76 with no effect on its financial position, results of operations and cash flows.

**INDEPENDENT ACCOUNTANTS' REPORT**

To the Board of Directors and Stockholders of  
ANSYS INC.  
Canonsburg, Pennsylvania

We have reviewed the accompanying condensed consolidated balance sheet of ANSYS Inc. and subsidiaries (the "Company") as of March 31, 2003, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2003 and 2002. 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 of 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 such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of ANSYS Inc. and subsidiaries as of December 31, 2002, and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended (not presented herein); and in our report dated January 29, 2003 (February 4, 2003 as to the last paragraph of Note 3), we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph, which indicated that the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In our opinion, the information set forth in the condensed consolidated balance sheet as of December 31, 2002 included in the Company's Form 10-Q referred to above is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

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Pittsburgh, Pennsylvania  
April 28, 2003

Item 2.

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

ANSYS INC. (the "Company") develops and globally markets engineering simulation software and technologies widely used by engineers and designers across a broad spectrum of industries, including aerospace, automotive, manufacturing, electronics and biomedical. Headquartered at Southpointe in Canonsburg, Pennsylvania, the Company employs approximately 600 people and focuses on the development of open and flexible solutions that enable users to analyze designs directly on the desktop, providing a common platform for fast, efficient and cost-conscious product development, from design concept to final-stage testing and validation. The Company distributes its ANSYS®, DesignSpace®, AI\*NASTRAN, ICEM CFD Engineering and CADOE products through a global network of channel partners, in addition to its own direct sales offices in strategic, global locations. It is the Company's intention to continue to maintain this mixed sales and distribution model. The Company's CFX® products are currently distributed primarily through direct sales offices located in seven countries throughout the world. 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, 2003 and 2002, and with the Company's audited financial statements and notes thereto for the year ended December 31, 2002 filed on Form 10-K with the Securities and Exchange Commission.

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 total cost of sales increasing as a percentage of revenue, 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, estimates of tax rates in future periods, 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 2002 Annual Report to Shareholders and in "Certain Factors Regarding Future Results" included herein as Exhibit 99.1 to this Form 10-Q.

## Results of Operations

### Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

*Revenue.* The Company's total revenue increased 15.7% in the 2003 first quarter to \$24.6 million from \$21.3 million in the 2002 first quarter. Total revenue in the first quarter of 2003 included approximately \$2.3 million related to certain entities and assets acquired during the first quarter (hereinafter referred to as "CFX").

Software license revenue increased 9.8% in the 2003 quarter to \$12.4 million from \$11.3 million in the 2002 quarter. The quarterly revenue increase was the result of approximately \$1.2 million related to CFX.

Maintenance and service revenue increased 22.4% in the 2003 quarter to \$12.2 million from \$9.9 million in the 2002 quarter. This increase was primarily the result of maintenance contracts sold in association with paid-up license sales in recent quarters, as well as approximately \$1.1 million in revenue related to the acquisition of CFX.

In valuing deferred revenue for inclusion on the CFX opening balance sheet as of February 26, 2003, the Company complied with the fair value provisions of Emerging Issues Task Force ("EITF") Issue No. 01-3 "Accounting in a Business Combination for Deferred Revenue of an Acquiree." In accordance with EITF 01-3, acquired deferred software license revenue of approximately \$4.8 million was recorded on the opening balance sheet. This amount was approximately \$3.4 million lower than the historical carrying value. Although this purchase accounting requirement will have no impact on the Company's business or cash flow, it will adversely impact the Company's reported GAAP software license revenue for the first twelve months post-acquisition. The adverse impact on reported revenue was approximately \$454,000 for the three months ended March 31, 2003, and is expected to be approximately \$1.1 million, \$900,000 and \$500,000 for the quarters ending June 30, 2003, September 30, 2003 and December 31, 2003, respectively. The adverse impact on reported revenue for the year ending December 31, 2004 is expected to be approximately \$400,000.

The Company has recently developed and introduced many new software products. Certain of these products require a higher level of sales and support expertise. The ability of the Company's sales channel, particularly the indirect channel, to obtain this expertise and sell the new product offerings effectively could have an effect on the Company's sales in future periods. Additionally, royalties and consulting engagements associated with the new software products may result in the Company's cost of sales increasing as a percentage of revenue in future periods.

As the Company has grown, it has become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. As a result of the current economic slowdown, many companies are delaying or reducing technology

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purchases, which has had an impact on the Company's visibility into the closing of new business, as opposed to its recurring business. This slowdown has also contributed to, and may continue to contribute to, reductions in sales, longer sales cycles and increased price competition. Each of these items could adversely affect the Company's sales in future periods.

Of the Company's total revenue in the 2003 quarter, approximately 64.8% and 35.2%, respectively, were attributable to international and domestic sales, as compared to 56.1% and 43.9%, respectively, in the 2002 quarter.

*Cost of Sales and Gross Profit.* The Company's total cost of sales increased to \$4.1 million, or 16.6% of total revenue, in the 2003 first quarter from \$2.9 million, or 13.4% of total revenue, in the 2002 first quarter. The increase in the 2003 quarter was primarily attributable to costs associated with engineering consulting services provided by CFX, as well as royalty costs associated with CFX software sales.

As a result of the foregoing, the Company's gross profit increased 11.5% to \$20.5 million in the 2003 quarter from \$18.4 million in the 2002 quarter.

The CFX business has historically included a higher percentage of engineering consulting services than has the core ANSYS business. As a result, the Company expects total cost of sales as a percentage of revenue to increase over the comparable 2002 period for the remainder of 2003.

*Selling and Marketing.* Total selling and marketing expenses increased from \$5.2 million, or 24.3% of total revenue in the 2002 quarter, to \$5.5 million, or 22.4% of total revenue in the 2003 quarter. The increase resulted from the addition of headcount and facility costs associated with CFX. The Company anticipates that it will continue to make significant investments throughout the remainder of 2003 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 in the 2003 first quarter to \$5.7 million, or 23.0% of total revenue, from \$4.8 million, or 22.7% of total revenue, in the 2002 quarter. The increase primarily resulted from additional headcount and related costs related to the development and introduction of new and enhanced products. Headcount and facility costs associated with CFX also contributed to the increase. The Company has traditionally invested significant resources in research and development activities and intends to continue to make significant investments in this area.

*Amortization.* Amortization expense increased to \$748,000 in the 2003 first quarter from \$599,000 in the prior year quarter. The increase relates to amortization expense associated with intangible assets acquired in the CFX purchase.

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*General and Administrative.* General and administrative expenses increased from \$2.3 million, or 11.0% of total revenue in the 2002 quarter, to \$2.6 million, or 10.7% of total revenue in the 2003 quarter. The increase primarily related to general and administrative costs associated with the CFX business.

The Company maintains commercial insurance to protect against and manage the risks involved in conducting business. The cost to obtain insurance coverage for such risks has significantly increased due to the environment within the commercial insurance industry. Additionally, the Company has recently renewed its contract for employee health insurance coverage in 2003. The new contract results in significantly higher health insurance costs than in prior years. Because these insurance costs relate to personnel, they are allocated to each functional area of the Company and will increase cost of sales, sales and marketing, research and development, and general and administrative expenses in future periods.

On July 30, the Sarbanes-Oxley Act of 2002 (the "Act") was signed into law. The Act contains far-reaching corporate governance reforms and new disclosure requirements for public companies. Certain of the Act's provisions became effective immediately, while other provisions will be implemented over the course of the next twelve months. Costs to comply with the provisions of the Act, including legal and accounting fees, will result in higher general and administrative expenses in future periods.

*Other Income.* Other income increased to \$534,000 in the 2003 first quarter from \$171,000 in the prior year quarter. The increase related to higher average cash and investment balances in 2003, as compared to the prior year period, as well as foreign currency transaction gains.

*Income Tax Provision.* The Company's effective rates of taxation were 34.2% in the 2003 quarter and 31.5% in the 2002 quarter. These rates are lower than the federal and state combined statutory rate as a result of export benefits, as well as the generation of research and experimentation credits. The increase in the effective tax rate in the 2003 period relates to the impact of the CFX acquisition. The Company expects that the effective tax rate will remain in the range of 33% - 35% for the remainder of the year.

In November 2000, the United States enacted the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act") in response to a challenge from the World Trade Organization ("WTO") that the existing tax benefits provided by foreign sales corporations were prohibited tax subsidies. The Act generally repeals the foreign sales corporation and implements an extraterritorial income ("ETI") tax benefit. Recently, the European Union stated that it did not believe the ETI provisions bring U.S. tax law into WTO-compliance and asked the WTO to rule on the matter. On August 30, 2002, the WTO ruled that the European Union may impose up to \$4 billion per year in retaliatory duties against U.S. exports. As a result, there may be further related changes to U.S. export tax law in connection with this ruling.

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In April 2003, the Job Protection Act of 2003 (H.R. 1769) was introduced into the House of Representatives. The Act would repeal the ETI tax regime and replace it with a permanent rate deduction for companies with production activities in the US. In its current form, the Act provides general transition relief through 2008 based upon the 2001 ETI benefit. In fiscal year 2002, export benefits reduced the Company's effective tax rate by approximately 4.3%. Any prospective changes regarding tax benefits associated with the Company's export sales or other federal and state tax planning vehicles may adversely impact the Company's effective tax rate and decrease its net income in future periods.

*Net Income.* The Company's net income in the 2003 quarter was \$4.3 million as compared to \$3.9 million in the 2002 quarter. Diluted earnings per share increased to \$.27 in the 2003 quarter as compared to \$.25 in the 2002 quarter as a result of the increase in net income. The weighted average shares used in computing diluted earnings per share were 15.6 million in the 2003 quarter and 15.8 million in the 2002 quarter.

### **Liquidity and Capital Resources**

As of March 31, 2003, the Company had cash, cash equivalents and short-term investments totaling \$51.8 million and working capital of \$39.1 million, as compared to cash, cash equivalents and short-term investments of \$61.1 million and working capital of \$56.9 million at December 31, 2002. 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 \$11.5 million for the three months ended March 31, 2003 and \$2.9 million for the three months ended March 31, 2002. The increase in the Company's cash flow from operations in the 2003 three-month period as compared to the comparable 2002 period was primarily a result of cash collections associated with increased sales activity. The prior year period also included a nonrecurring payment of approximately \$2.0 million associated with the settlement of a dispute with a former distributor. Also contributing to the increase in cash were lower income tax payments and approximately \$1.1 million in cash generated by the CFX business.

The Company's investing activities used cash of \$22.2 million and \$11.6 million for the three months ended March 31, 2003 and 2002, respectively. In the 2003 three-month period, cash outlays primarily related to the acquisition of CFX. In the 2002 three-month period, cash usage primarily related to the purchase of short-term investments, as well as the final payment related to the 2000 acquisition of ICEM CFD Engineering. The Company currently plans additional capital spending of approximately \$2.5 million throughout the remainder of 2003; however, the level of spending will be dependent upon various factors, including growth of the business and general economic conditions.



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Financing activities generated cash of \$1.4 million in the three months ended March 31, 2003 and used cash of approximately \$1.1 million in the three months ended March 31, 2002. In the 2003 period, cash was provided by proceeds from the issuance of common stock under employee stock purchase and option plans. In the 2002 period, 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 2003. 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.

The Company does not have any special purpose entities or off-balance sheet financing arrangements.

### **Critical Accounting Policies**

ANSYS believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. ANSYS recognizes revenue in accordance with SOP 97-2, "*Software Revenue Recognition*," and related interpretations. Revenue from perpetual licenses is recognized upon delivery of the licensed product and the utility which enables the customer to request authorization keys, provided that acceptance has occurred and a signed contractual obligation has been received, the price is fixed and determinable, and collectibility of the receivable is probable. Revenue for software lease licenses is recorded ratably over the period of the lease contract. Revenue is recorded net of the distributor fee for sales through the ANSYS distribution network. The Company estimates the value of post-contract customer support sold together with perpetual licenses by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. Revenue from maintenance contracts is recognized ratably over the term of the contract. Revenue from training, support and other services is recognized as the services are performed.

ANSYS maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management specifically analyzes accounts receivable, historical bad debts, credit concentrations and customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

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ANSYS capitalizes internal labor costs associated with the development of product enhancements subsequent to the determination of technological feasibility. Amortization of capitalized software costs, both for internally developed as well as for purchased software products, is computed on a product-by-product basis over the estimated economic life of the product, which is generally three years. The Company periodically reviews the carrying value of capitalized software and an impairment will be recognized in the results of operations if the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value.

The Company tests goodwill for impairment at least annually by comparing the fair value of the goodwill to its carrying value. Fair value is estimated using the discounted cash flow and other valuation methodologies that are based on projections of the amounts and timing of future revenues and cash flows.

**Item 3.**

**Quantitative and Qualitative Disclosures  
Regarding Market Risk**

As the Company continues to expand its direct sales presence in international regions, the portion of its revenue and expenses denominated in foreign currencies continues to increase. As a result, changes in currency exchange rates from time to time may affect the Company's financial position, results of operations and cash flows. There was no material change in the Company's exposure to market risk from December 31, 2002.

**Item 4.**

**Controls and Procedures**

- (a) Disclosure controls and procedures. As required by new Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures under the supervision and with the participation of the Company's management, including James E. Cashman, III, the Company's President and Chief Executive Officer, and Maria T. Shields, the Company's Chief Financial Officer. In 2002, the Company created a Disclosure Review Committee to assist in the quarterly evaluation of the Company's internal disclosure controls and procedures and in the review of the Company's periodic filings under the Exchange Act. The membership of the Disclosure Review Committee consists of the Company's Chief Executive Officer, Chief Financial Officer, Controller, Corporate Counsel, Treasurer, Vice President of Sales and Services, Vice President of Human Resources, and Business Unit General Managers. Based upon that evaluation, Mr. Cashman and Ms. Shields concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. In connection with the new rules, the Company will continue to review and document its disclosure controls and procedures, including its internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with its business.
- (b) Changes in internal controls. Since the date of the evaluation described above, the Company acquired CFX. The Company is currently in the process of evaluating the effectiveness of the disclosure controls related to the CFX business. Other than the CFX acquisition, there have not been any significant changes in the Company's internal accounting controls or in other factors that could significantly affect those controls.

**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. 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.

<u>Month/Year</u>	<u>Number of Shares</u>	<u>Number of Individuals</u>	<u>Aggregate Exercise Price</u>
January 2003	800	1	\$ 8,000.00
February 2003	500	1	\$ 5,000.00
March 2003	20,000	1	\$ 200,000.00

**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**

The Company's Chief Executive Officer and Chief Financial Officer have furnished to the SEC the certification with respect to this Form 10-Q that is required by Section 906 of the Sarbanes-Oxley Act of 2002. See Exhibits 99.2 and 99.3 attached hereto.

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

(a) Exhibits.

10	Employment Agreement Between the Registrant and James E. Cashman III
15	Independent Accountants' Letter Regarding Unaudited Financial Information
99.1	Certain Factors Regarding Future Results
99.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
99.3	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on February 5, 2003 to report that it had entered into a definitive agreement to acquire CFX.

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on March 12, 2003 to report that it had completed the acquisition of CFX.

**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.

Date: May 12, 2003	ANSYS INC. By: /s/ JAMES E. CASHMAN, III <hr/> <b>James E. Cashman, III</b> President and Chief Executive Officer
Date: May 12, 2003	By: /s/ MARIA T. SHIELDS <hr/> <b>Maria T. Shields</b> Chief Financial Officer

## CHIEF EXECUTIVE OFFICER CERTIFICATION

I, James E. Cashman, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS INC. (“ANSYS”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ANSYS and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of ANSYS’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. ANSYS’s other certifying officer and I have disclosed, based on our most recent evaluation, to ANSYS’s auditors and the audit committee of ANSYS’s Board of Directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect ANSYS’s ability to record, process, summarize and report financial data and have identified for ANSYS’s auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS’s internal controls; and
6. ANSYS’s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ JAMES E. CASHMAN, III

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**James E. Cashman, III**  
President and Chief  
Executive Officer



## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Maria T. Shields, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ANSYS INC. (“ANSYS”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of ANSYS as of, and for, the periods presented in this quarterly report;
4. ANSYS’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for ANSYS and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to ANSYS, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of ANSYS’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. ANSYS’s other certifying officer and I have disclosed, based on our most recent evaluation, to ANSYS’s auditors and the audit committee of ANSYS’s Board of Directors:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect ANSYS’s ability to record, process, summarize and report financial data and have identified for ANSYS’s auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in ANSYS’s internal controls; and
6. ANSYS’s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ MARIA T. SHIELDS

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**Maria T. Shields**  
**Chief Financial Officer**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	
10.1	Employment Agreement Between the Registrant and James E. Cashman III as of April 21, 2003; filed herewith.
15	Independent Accountants' Letter Regarding Unaudited Financial Information
99.1	Certain Factors Regarding Future Results
99.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
99.3	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of this 21<sup>st</sup>/ day of April 2003 by and between James E. Cashman III (the "Employee") and ANSYS INC., a Delaware corporation (the "Company").

## W I T N E S S E T H:

WHEREAS, Employee has been an officer and a key employee of the Company and the parties desire to ensure that Employee's expertise, knowledge and experience will continue to be available to the Company in connection with the business carried on by the Company currently or in the future.

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

**Employment.** Subject to the provisions of Section 6, the Company hereby employs Employee and Employee accepts such employment upon the terms and conditions hereinafter set forth.

**Term of Employment.** Subject to the provisions of Section 6, the term of Employee's employment pursuant to this Agreement shall commence on and as of the date hereof (the "Effective Date") and shall remain in effect indefinitely unless terminated pursuant to Section 6.

**Duties; Extent of Service.** During Employee's employment under this Agreement, Employee (i) shall serve as an employee of the Company with the title and position of President and Chief Executive Officer, reporting to the Board of Directors of the Company, (ii) shall have such executive responsibilities as the Board of Directors of the Company shall from time to time designate, (iii) upon the request of the Board of Directors of the Company, shall serve as an officer and/or director of any of the Company's subsidiaries, and (iv) shall render all services reasonably incident to the foregoing. Employee shall not be assigned any duty which is inconsistent with his position as President and Chief Executive Officer of the Company. Employee hereby accepts such employment, agrees to serve the Company in the capacities indicated, and agrees to use Employee's best efforts in, and shall devote Employee's full working time, attention, skill and energies to, the advancement of the interests of the Company and its subsidiaries and the performance of Employee's duties and responsibilities hereunder (excluding reasonable and appropriate charitable activities).

**Salary, Bonus and Other Compensation.**

During Employee's employment under this Agreement, the Company shall pay Employee a salary at the annualized rate of at least \$300,000 per annum (the "Base Salary"). Such Base Salary shall be subject to withholding under applicable law, shall be pro rated for partial years and shall be payable in periodic installments not less frequently than biweekly in accordance with the Company's usual practice for executive officers of the Company as in effect from time to time. The Board of Directors

of the Company will review Employee's Base Salary amount at least annually (and not later than the anniversary date of this Agreement) and may in its sole discretion increase the same for the ensuing year.

For each semi-annual period or portion thereof during Employee's employment under this Agreement (on a calendar year basis), Employee shall be eligible to participate in any bonus or other performance plan established by the Board of Directors from time to time for executive officers of the Company (the "Incentive Bonus"). Employee's Incentive Bonus target shall be \$200,000 per annum (on a calendar year basis), or such higher amount as the Compensation Committee of Board of Directors may determine from time to time. The actual amount of the Incentive Bonus shall be based upon Employee's performance relative to jointly developed, specific corporate and individual objectives (the "Objectives"). In the event that Employee exceeds the Objectives, the Incentive Bonus will be increased as set forth in the Objectives.

The Compensation Committee of the Board of Directors or the Chairman of the Board of Directors shall meet with Employee on or prior to each anniversary of this Agreement to discuss the Employee's Base Salary and Incentive Bonus for the following year.

Benefits.

During Employee's employment under this Agreement, Employee shall be entitled to participate in any and all medical, pension, profit sharing, dental and life insurance plans and disability income plans, stock option plans, retirement arrangements and other employment benefits as in effect from time to time for executive officers of the Company generally ("Benefit Plans"). Such participation shall be subject to (i) the terms of the applicable plan documents (including, as applicable, provisions granting discretion to the Board of Directors of the Company or any administrative or other committee provided for therein or contemplated thereby) and (ii) generally applicable policies of the Company.

During Employee's employment under this Agreement, Employee shall receive paid vacation annually in accordance with the Company's practices for executive officers, as in effect from time to time, but in any event not less than four (4) weeks per calendar year. Unused vacation time in any calendar year, not to exceed eight (8) weeks on an aggregate and cumulative basis, may accumulate for later use, subject to the establishment of arrangements mutually satisfactory to Employee and the Board of Directors of the Company with respect to the management and supervision of the business affairs of the Company during his absence. Upon termination of Employee's employment with the Company, Employee shall receive Base Salary in respect of each week of accrued but unused vacation time, not to exceed eight (8) weeks, in addition to any of the other payments that may otherwise be due to Employee under the provisions of this Agreement following such termination.

The Company shall promptly reimburse Employee for all reasonable business expenses incurred by Employee during Employee's employment hereunder in accordance with the Company's practices

for senior executive officers of the Company, as in effect from time to time.

During Employee's employment under this Agreement, the Company shall provide Employee with a car allowance of \$600 per month and shall reimburse Employee for all gas, oil, maintenance and insurance for Employee's automobile.

The Company will purchase on behalf of Employee a term life insurance policy providing a death benefit of \$2,000,000 in the event of Employee's death and naming such person or persons as Employee may designate as loss payee or payees and maintain such policy in effect during the term of Employee's employment under this Agreement. The obligation to purchase and the maintenance of such life insurance policy, however, shall be contingent upon Employee's satisfactory completion of all requirements in connection therewith including, without limitation, a physical examination.

Compliance with the provisions of this Section 5 shall in no way create or be deemed to create any obligation, express or implied, on the part of the Company or any of its affiliates with respect to the continuation of any particular benefit or other plan or arrangement maintained by them or their subsidiaries as of or prior to the date hereof or the creation and maintenance of any particular benefit or other plan or arrangement at any time after the date hereof, except as contemplated by Section 5(b), 5(c), 5(d) and 5(e).

Termination and Termination Benefits. Notwithstanding the provisions of Section 2, Employee's employment under this Agreement shall terminate under the following circumstances set forth in this Section 6. It is expressly agreed and understood that if this Agreement is terminated as provided in this Section 6, it shall not impair or otherwise affect Employee's Continuing Obligations (as defined below).

Termination by the Company for Cause. Employee's employment under this Agreement may be terminated for Cause without further liability on the part of the Company effective immediately upon a vote of the Board of Directors and written notice to Employee; provided, however, that Employee shall first have been provided with written notice of the events constituting Cause and shall have been given thirty (30) days after written notice thereof to remedy the same (if and to the extent such events constituting Cause can be remedied at all). Only the following shall constitute "Cause" for such termination:

Employee (A) has committed an illegal act involving fraud, embezzlement, misappropriation or a breach of fiduciary duty against the Company or any of its affiliates, or (B) has been convicted by a court of competent jurisdiction or has plead guilty or nolo contendere to any crime involving moral turpitude;

Employee has disobeyed reasonable, mutually agreed, written instructions from the Board of Directors of the Company or has engaged in a material violation of the written policies of the Company;

Employee has committed a material breach of any of the covenants, terms or provisions of Section 8 hereof or of the Confidentiality Agreement (as defined in Section 6(h) hereof); or Employee has committed a material breach of any of the covenants, terms or provisions hereof (other than Section 8 hereof).

Termination by Employee Without Good Reason. Employee's employment under this Agreement may be terminated without Good Reason (as defined below) by Employee by written notice to the Board of Directors at least sixty (60) days prior to such termination.

Termination by Mutual Consent. Employee's employment under this Agreement may be terminated at any time by the mutual consent of Employee and the Board of Directors of the Company.

Termination by the Company Without Cause. Employee's employment under this Agreement may be terminated without Cause by the Company by a vote of the Board of Directors upon at least sixty (60) days written notice to Employee.

Termination by Employee With Good Reason. Employee's employment under this Agreement may be terminated by Employee with Good Reason (as defined below) by written notice to the Board of Directors at least sixty (60) days prior to such termination. For purposes of this Agreement, "Good Reason" shall mean any material breach of this Agreement by the Company, which breach has not been remedied within thirty (30) days after delivery to Company by the Employee of written notice thereof.

Certain Termination Benefits. Unless otherwise specifically provided in this Agreement or otherwise required by law, all compensation and benefits payable to Employee under this Agreement shall terminate on the date of termination of Employee's employment under this Agreement. Notwithstanding the foregoing, in the event of termination of Employee's employment with the Company pursuant to Section 6(d) or 6(e) above, subject to the signing by Employee, and the effectiveness of, a general release in form and substance reasonably satisfactory to Employee and the Company, the Company shall provide to Employee the following termination benefits ("Termination Benefits"):

any earned but unpaid Base Salary;

continuation of Employee's Base Salary at the rate then in effect pursuant to Section 4(a) plus an amount equal to Employee's target bonus amount (\$200,000) or such higher bonus amount as may be the Employee's target bonus for the current fiscal year under Section 4(b) (with the bonus amount payable on a monthly, prorated basis);

continuation of Employee's then-existing benefits as provided in Sections 5(a) (other than his participation in plans in which Employee may not participate as a matter of law following the termination of his employment) and 5(e);

continuation of group health plan benefits to the extent authorized by and consistent with 29 U.S.C. Section 1161 et seq. (commonly known as "COBRA"), at Employee's own cost; and

outplacement services as selected by the Employee in an amount not to exceed in the aggregate twelve percent (12%) of the Employee's Base Salary at the rate then in effect.

The Termination Benefits set forth in clauses (ii), (iii) and (v) above shall continue, so long as Employee is in compliance with Employee's Continuing Obligations under this Agreement, until the second anniversary of the date of termination and shall be subject to any applicable withholding; provided, however, that in the event that the Employee commences any employment or self-employment (which shall be deemed to include (A) any activity for which Employee shall receive or be entitled to receive remuneration based upon the Employee's work efforts or (B) any other business activity from which Employee derives income) during the period during which the Employee is entitled to receive Termination Benefits (the "Termination Benefits Period"), the Termination Benefits set forth in clauses (iii) and (v) above shall cease to be effective as of the date of commencement of such employment or self-employment. The Company's liability for Base Salary and bonus continuation pursuant to Section 6(f)(ii) shall be reduced by the amount of any severance pay due or otherwise paid to Employee pursuant to any severance pay plan or stay bonus plan of the Company. Notwithstanding the foregoing, nothing in this Section 6(f) shall be construed to affect Employee's right to receive COBRA continuation entirely at Employee's own cost to the extent that Employee may continue to be entitled to COBRA continuation. Employee shall be obligated to give prompt notice of the date of commencement of any employment or self-employment during the period during which the Employee is entitled to receive Termination Benefits and shall respond promptly to any reasonable inquiries concerning any employment or self-employment in which Employee engages during such period. The Company and Employee agree that the Termination Benefits paid by the Company to Employee under this Section 6(f) shall be in full satisfaction, compromise and release of any claims arising out of any termination of Employee's employment pursuant to Section 6(d) or 6(e).

Disability. If Employee shall be disabled so as to be unable to perform, with or without reasonable accommodation, the essential functions of Employee's then existing position or positions under this Agreement for at least 180 consecutive days, the Board of Directors may remove Employee from any responsibilities and/or reassign Employee to another position with the Company during the period of such disability and/or terminate Employee's employment hereunder following the end of such 180-day period. Notwithstanding any such removal, reassignment or termination, Employee shall continue to receive Employee's full Base Salary and benefits under Section 5 of this Agreement (except to the extent that Employee may be ineligible for one or more such benefits under applicable plan terms) for not less than twelve (12) months following the date of such disability and shall receive an additional amount during such period equal to the Target Bonus (\$200,000) or such higher bonus amount as may be the Employee's target bonus for the current fiscal year under Section 4(b) pro rated for the portion of the year in which Employee serves as a full time employee, with all such payments subject to applicable withholding (less any disability pay or sick pay benefits to which Employee may be entitled under the Company's

policies). If any question shall arise as to whether during any period Employee is disabled so as to be unable to perform the essential functions of Employee's then existing position or positions with or without reasonable accommodation, Employee may, and at the request of the Company shall, submit to the Company a certification in reasonable detail by a physician selected by the Company to whom Employee or Employee's guardian has no reasonable objection as to whether Employee is so disabled or how long such disability is expected to continue, and such certification shall for the purposes of this Agreement be conclusive of the issue. Employee shall cooperate with any reasonable request of the physician in connection with such certification. If such question shall arise and Employee shall fail to submit such certification, the Company's determination of such issue shall be binding on Employee. Nothing in this Section 6(f) shall be construed to waive Employee's rights, if any, under existing law including, without limitation, the Family and Medical Leave Act of 1993, 29 U.S.C. Section 2601 et seq. and the Americans with Disabilities Act, 42 U.S.C. Section 12101 et seq.

Death. Employee's employment and all obligations of the Company hereunder shall terminate in the event of the death of Employee other than any obligation to pay earned but unpaid Base Salary and an amount equal to Employee's target bonus (\$200,000) or such higher bonus amount as may be the Employee's target bonus for the current fiscal year under Section 4(b), prorated for the number of full months Employee is employed during the relevant calendar year. Such amounts, shall be paid reasonably promptly following the date of death, subject to applicable withholding.

Continuing Obligations. Notwithstanding termination of this Agreement as provided in this Section 6 or any other termination of Employee's employment with the Company, it is expressly agreed and understood that Employee's obligations under (i) Section 8 hereof and (ii) the ANSYS INC. Employee Agreement Regarding Inventions, Confidentiality and Competitive Activities signed by Employee on September 9, 1997 (the "Confidentiality Agreement" and collectively with Section 8 hereof, the "Continuing Obligations") shall survive any termination of Employee's employment with the Company at any time and for any reason.

Accrued Benefits. Regardless of the reason for termination of Employee's employment with the Company, and subject to the terms and provisions of the applicable plan and/or award documents, Employee (or beneficiary in the event of death) shall be entitled to all benefits earned and accrued by Employee under the Company's Benefit Plans.

Termination Pursuant to a Change of Control. If there is a Change of Control (as defined below in this Section 6(k)) during the term of this Agreement, the provisions of this Section 6(k) shall apply and shall continue to apply throughout the remainder of the term of this Agreement. If, within one hundred and eighty (180) days following a Change of Control, (i) the Employee is removed from his position as President and Chief Executive Officer of the Company (or is otherwise subject to any reduction in salary or other forms of cash compensation or to any material reduction in other benefits) without his consent, (ii) the surviving entity in such Change of Control (if other than the Company) fails to assume this Agreement and agree to be bound by



all of the provisions hereof (including, without limitation, this Section 6) or (iii) the Employee's employment is terminated by the Company with or without Cause for any reason other than death or disability, the Company shall provide to Employee all of the payments and benefits that would be provided to Employee under Section 6(f) above upon a termination of his employment by the Company without Cause. "Change of Control" shall mean the occurrence of one or more of the following events: (A) the dissolution or liquidation of the Company, (B) the sale of all or substantially all of the assets of the Company on a consolidated basis to another person or entity, (C) a merger, reorganization or consolidation in which the holders of the then outstanding voting securities of the Company prior to such transaction do not own a majority of the outstanding voting securities of the surviving or resulting entity immediately upon completion of such transaction, (D) the sale of all of the outstanding stock of the Company to an unrelated person or entity, (E) any other transaction where the holders of the then outstanding voting securities of the Company prior to such transaction do not own at least a majority of the outstanding voting securities of the relevant entity after the transaction, or (F) the individuals who constitute the Company's Board of Directors as of the date of this Agreement (the "Incumbent Directors") cease for any reason to constitute at least a majority of the members of such Board (provided, however, that any individual becoming a director subsequent to the date of this Agreement whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors (unless the nomination or election (x) was at the request of an unrelated third-party who has taken steps reasonably calculated to effect a Change of Control or (y) otherwise arose in connection with or anticipation of the Change of Control) shall also be deemed to be an "Incumbent Director" for purposes hereof).

#### Stock Options.

In the case of a Change of Control, all stock options to purchase stock of the Company held by Employee shall become fully vested upon the effective date of and immediately prior to the consummation of the Change of Control. Such stock options shall terminate on the effective date of the Change of Control, unless provision is made in the Change of Control in the sole discretion of the parties thereto for the assumption of such stock options or the substitution for such stock options of a new stock option of the successor person or entity or a parent or subsidiary thereof, with appropriate adjustment as to the number and kind of shares and the per share exercise price. In the event of such termination, the Company shall give to Employee written notice thereof at least fifteen (15) days prior to the effective date of the Change of Control. During such fifteen-day period, Employee may deliver to the Company a notice of exercise with respect to all or any portion of such stock options, including any portion that will become fully vested upon the effective day of the Change of Control; provided, however, that (i) such exercise shall be subject to the consummation of the Change of Control and (ii) Employee shall not be required to deliver to the Company the exercise price for such exercised stock option until the effective date of such Change of Control. After such effective

date and the termination of such stock options as set forth above, Employee may not exercise any such stock options.

The provisions of this Section 7 shall be deemed to modify and control any applicable option agreement to which Employee is a party. Upon termination of Employee's employment with the Company for any reason, the treatment of Employee's options shall be as set forth in such agreements.

Non-Competition; Non-Solicitation; Confidentiality; Proprietary Rights.

Employee hereby agrees that during the period commencing on the date hereof and ending on the Non-Competition Covenant Termination Date (as defined below) (the "Non-Competition Period"), Employee will not, without the express written consent of the Company, directly or indirectly, anywhere in the world, engage in any activity which is, or participate or invest in, or provide or facilitate the provision of financing to, or assist (whether as owner, part-owner, shareholder, member, partner, director, officer, trustee, employee, agent or consultant, or in any other capacity), any company, business, organization, division, business unit or person other than the Company (or any subsidiary or affiliate of the Company) that designs, manufactures or sells software supporting computer-assisted design and/or engineering (each such business, organization, division, business unit or person, a "Competitor"). Without implied limitation, the foregoing covenant shall be deemed to prohibit (i) hiring or engaging or attempting to hire or engage for or on behalf of Employee or any Competitor any officer or employee of the Company or any of its direct and/or indirect subsidiaries or affiliates, or any former employee of the Company or any of its direct and/or indirect subsidiaries or affiliates who was employed during the six (6) month period immediately preceding the date of such attempt to hire or engage, (ii) encouraging for or on behalf of Employee or any Competitor any such officer or employee to terminate his or her relationship or employment with the Company or any of its direct or indirect subsidiaries or affiliates, (iii) soliciting for or on behalf of Employee or any Competitor any client of the Company or any of its direct or indirect subsidiaries or affiliates, or any former client of the Company or any of its direct or indirect subsidiaries or affiliates who was a client during the six (6) month period immediately preceding the date of such solicitation and (iv) diverting to any Competitor any client or business opportunity of the Company or any of its direct or indirect subsidiaries or affiliates.

Notwithstanding anything herein to the contrary, Employee may make passive investments in any enterprise the shares of which are publicly traded if such investment constitutes less than two percent (2%) of the equity of such enterprise.

Neither Employee nor any business entity controlled by Employee is a party to any contract, commitment, arrangement or agreement which could, following the date hereof, restrain or restrict the Company or any subsidiary or affiliate of the Company from carrying on its business or restrain or restrict Employee from performing his employment obligations, and as of the date of this

Agreement Employee has no business interests whatsoever in or relating to the industries in which the Company or its subsidiaries or affiliates currently engage, other than passive investments in the shares of public companies of less than two percent (2%).

In the course of performing services hereunder, on behalf of the Company (for purposes of this Section 8 including all predecessors of the Company) and its affiliates, Employee has had and from time to time will have access to Confidential Information (as defined below). Employee agrees (i) to hold the Confidential Information in strict confidence, (ii) not to disclose the Confidential Information to any person (other than in the regular business of the Company or its affiliates), and (iii) not to use, directly or indirectly, any of the Confidential Information for any purpose other than on behalf of the Company and its affiliates. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, that are furnished to Employee by the Company or are produced by Employee in connection with Employee's employment will be and remain the sole property of the Company. Upon the termination of Employee's employment with the Company for any reason and as and when otherwise requested by the Company, all Confidential Information (including, without limitation, all data, memoranda, customer lists, notes, programs and other papers and items, and reproductions thereof relating to the foregoing matters) in Employee's possession or control, shall be immediately returned to the Company.

Employee hereby confirms that Employee is not bound by the terms of any agreement with any previous employer or other party that restricts in any way Employee's use or disclosure of information or Employee's engagement in any business. Employee represents to the Company that Employee's execution of this Agreement, Employee's employment with the Company and the performance of Employee's proposed duties for the Company will not violate any obligations Employee may have to any such previous employer or other party. In Employee's work for the Company, Employee will not disclose or make use of any information in violation of any agreements with or rights of any such previous employer or other party, and Employee will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

During and after Employee's employment, Employee shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Employee was employed by the Company. Employee's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company at mutually convenient times. During and after Employee's employment, Employee also shall cooperate fully with the Company in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Employee was employed by the Company. The Company shall reimburse

Employee for any reasonable out-of-pocket expenses incurred in connection with Employee's performance of obligations pursuant to this Section 8(d).

Employee recognizes that the Company and its affiliates possess a proprietary interest in all of the information described in Section 8(b) and have the exclusive right and privilege to use, protect by copyright, patent or trademark, or otherwise exploit the processes, ideas and concepts described therein to the exclusion of Employee, except as otherwise agreed between the Company and Employee in writing. Employee expressly agrees that any products, inventions, discoveries or improvements made by Employee or Employee's agents or affiliates in the course of Employee's employment, including any of the foregoing which is based on or arises out of the information described in Section 8(b), shall be the property of and inure to the exclusive benefit of the Company. Employee further agrees that any and all products, inventions, discoveries or improvements developed by Employee (whether or not able to be protected by copyright, patent or trademark) during the course of his employment, or involving the use of the time, materials or other resources of the Company or any of its affiliates, shall be promptly disclosed to the Company and shall become the exclusive property of the Company, and Employee shall execute and deliver any and all documents necessary or appropriate to implement the foregoing.

Employee agrees, while he is employed by the Company, to offer or otherwise make known or available to it, as directed by the Board of Directors of the Company and without additional compensation or consideration, any business prospects, contracts or other business opportunities that Employee may discover, find, develop or otherwise have available to Employee and further agrees that any such prospects, contacts or other business opportunities shall be the property of the Company.

Employee acknowledges that the provisions of this Section 8 are an integral part of Employee's employment arrangements with the Company.

For purposes of this Agreement:

the term "Confidential Information" shall mean information belonging to the Company which is of value to the Company or with respect to which the Company has right in the course of conducting its business and the disclosure of which could result in a competitive or other disadvantage to the Company. Confidential Information includes information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including, by way of example and without limitation, trade secrets, ideas, concepts, designs, configurations, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts processes, techniques, formulas, software, improvements, inventions, data, know-how, discoveries, copyrightable materials, marketing plans and strategies, sales and financial reports and forecasts, customer lists, studies, reports, records, books, contracts, instruments, surveys, computer disks, diskettes, tapes, computer programs and business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities) which have been discussed or considered by the management of the Company. Confidential Information includes

information developed by Employee in the course of Employee's employment by the Company, as well as other information to which Employee may have access in connection with Employee's employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain or reasonably expected to be in the public domain, unless due to breach of Employee's duties under Section 8(b).

The term "Non-Competition Covenant Termination Date" shall mean the date that is two (2) years following the date of termination of Employee's employment with the Company for any reason.

Parties in Interest; Certain Remedies. It is specifically understood and agreed that this Agreement is intended to confer a benefit, directly or indirectly, on the Company and its direct and indirect subsidiaries and affiliates, and that any breach of the provisions of this Agreement by Employee will result in irreparable injury to the Company and its subsidiaries and affiliates, that the remedy at law alone will be an inadequate remedy for such breach and that, in addition to any other remedy it may have, the Company or its subsidiaries and affiliates shall be entitled to seek to enforce the specific performance of this Agreement by Employee through both temporary and permanent injunctive relief without the necessity of posting a bond, but without limitation of their right to damages and any and all other remedies available to them, it being understood that injunctive relief is in addition to, and not in lieu of, such other remedies (and shall be in addition to and not in lieu of the provision of Section 11).

Dispute Resolution.

All disputes, claims, or controversies arising out of or relating to this Agreement or any other agreement executed and delivered pursuant to this Agreement or the negotiation, validity or performance hereof and thereof or the transactions contemplated hereby and thereby, or the rights and obligations of the parties hereunder or thereunder, that are not resolved by mutual agreement shall be resolved solely and exclusively by binding arbitration to be conducted before JAMS/Endispute, Inc. or its successor, except contemplated by Section 9 in connection with requests for injunctive relief. The arbitration shall be held in Pittsburgh, Pennsylvania before a single arbitrator and shall be conducted in accordance with the rules and regulations promulgated by JAMS/Endispute, Inc. unless specifically modified herein.

The parties covenant and agree that the arbitration shall commence within one hundred eighty (180) days of the date on which a written demand for arbitration is filed by any party hereto. In connection with the arbitration proceeding, the arbitrator shall have the power to order the production of documents by each party and any third-party witnesses. In addition, each party may take up to three depositions as of right, and the arbitrator may in his or her discretion allow additional depositions upon good cause shown by the moving party. However, the arbitrator shall not have the power to order the answering of interrogatories or the response to requests for

admission. In connection with any arbitration, each party shall provide to the other, no later than seven (7) business days before the date of the arbitration, the identity of all persons that may testify at the arbitration and a copy of all documents that may be introduced at the arbitration or considered or used by a party's witness or expert. The arbitrator's decision and award shall be made and delivered within six (6) months of the selection of the arbitrator. The arbitrator's decision shall set forth a reasoned basis for any award of damages or finding of liability. The arbitrator shall not have power to award damages in excess of actual compensatory damages and shall not multiply actual damages or award punitive damages or any other damages that are specifically excluded under this Agreement, and each party hereby irrevocably waives any claim to such damages. Each party shall pay its own fees and other out-of-pocket expenses (and shall pay one-half of the expenses of the arbitrator) in connection with any arbitration hereunder or litigation relating to the terms hereof. Any party unsuccessfully refusing to comply with an order of the arbitrators shall be liable for costs and expenses, including attorneys' fees, incurred by the other party in enforcing the award.

In the case of temporary or preliminary injunctive relief, any party may proceed in court without prior arbitration for the purpose of avoiding immediate and irreparable harm or to enforce the provisions of Section 8.

Each of the parties hereto irrevocably and unconditionally consents to the exclusive jurisdiction (subject to Section 9) of JAMS/Endispute, Inc. to resolve all disputes, claims or controversies arising out of or relating to this Agreement or any other agreement executed and delivered pursuant to this Agreement or the negotiation, validity or performance hereof and thereof, or the transactions contemplated hereby and thereby, or the rights and obligations of the parties hereunder or thereunder, and further consents to the sole and exclusive jurisdiction of the courts of the Commonwealth of Pennsylvania for the purposes of enforcing the arbitration provisions of this Section 10. Each party further irrevocably waives any objection to proceeding before JAMS/Endispute, Inc. based upon lack of personal jurisdiction or to the laying of venue and further irrevocably and unconditionally waives and agrees not to make a claim in any court that arbitration before JAMS/Endispute, Inc. has been brought in an inconvenient forum. Each of the parties hereto hereby consents to service of process by registered mail at the address to which notices are to be given. Each of the parties hereto agrees that its or his submission to jurisdiction and its or his consent to service of process by mail is made for the express benefit of the other parties hereto.

Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or mailed by certified or registered mail (return receipt requested) as follows:

To the Company:	ANSYS INC. Southpointe
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275 Technology Drive  
Canonsburg, PA 15317

To Employee: James E. Cashman III  
122 Lintel Drive  
McMurray, PA 15317

or to such other address of which any party may notify the other parties as provided above. Notices shall be effective as of the date of such delivery or mailing.

Scope of Agreement. The parties acknowledge that the time, scope, geographic area and other provisions of this Agreement, including Section 8 hereof, have been specifically negotiated by sophisticated parties and agree that all such provisions are reasonable under the circumstances of the transactions contemplated hereby, and are given as an integral and essential part of the transactions contemplated hereby. Employee has independently consulted with counsel and has been advised in all respects concerning the reasonableness and propriety of the covenants contained herein, with specific regard to the business to be conducted by Company and its subsidiaries and affiliates, and represents that the Agreement is intended to be, and shall be, fully enforceable and effective in accordance with its terms. Each party agrees that the provisions of this agreement and the agreements referred to herein shall be construed in accordance with their fair meaning and not in favor of nor against either party by reason of the drafting of such agreements.

Severability. In the event that any covenant contained in this Agreement shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it shall be interpreted to extend only over the maximum period of time for which it may be enforceable and/or over the maximum geographical area as to which it may be enforceable and/or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action. The existence of any claim or cause of action which Employee may have against the Company or any of its subsidiaries or affiliates shall not constitute a defense or bar to the enforcement of any of the provisions of this Agreement.

Miscellaneous. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania, without consideration of its choice of law provisions, and shall not be amended, modified or discharged in whole or in part except by an agreement in writing signed by both of the parties hereto. The failure of either of the parties to require the performance of a term or obligation or to exercise any right under this Agreement or the waiver of any breach hereunder shall not prevent subsequent enforcement of such term or obligation or exercise of such right or the enforcement at any time of any other right hereunder or be deemed a waiver of any subsequent breach of the provision so breached, or of any other breach hereunder. This Agreement shall inure to the benefit of, and be binding upon and assignable to, successors of the Company by way of merger, consolidation or sale and may not be assigned by Employee. This

Agreement supersedes and terminates all prior understandings and agreements between the parties (or their predecessors) relating to the subject matter hereof, including without limitation the letter dated on or about February 7, 2002; provided that all option agreements to which Employee is a party and the Confidentiality Agreement referred to in Section 6(h) shall remain in full force and effect in accordance with their terms. For purposes of this Agreement, the term "person" means an individual, corporation, partnership, association, trust or any unincorporated organization; a "subsidiary" means any corporation more than 50 percent of whose outstanding voting securities, or any partnership, joint venture or other entity more than 50 percent of whose total equity interest, is directly or indirectly owned by such person; and an "affiliate" of a person shall mean, with respect to a person or entity, any person or entity which directly or indirectly controls, is controlled by, or is under common control with such person or entity.

Indemnification. At all times (including after the termination of the Employee's employment with the Company), the Company agrees to obtain and keep in effect directors and officers liability insurance that provides coverage to the Employee no less advantageous to the Employee than the coverage applicable to any other current or former executive officer or director of the Company. In addition, the Company shall enter into with Employee the same form of Indemnification Agreement as it has entered into with its directors.

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IN WITNESS WHEREOF, the parties have executed this Agreement under seal  
as of the date first set forth above.

COMPANY:

ANSYS INC.

By: /s/ Peter J. Smith

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Name: Peter J. Smith

Title: Chairman of the Board

EMPLOYEE:

/s/ James E. Cashman III

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James E. Cashman III

May 12, 2003

ANSYS INC.  
275 Technology Drive  
Canonsburg, PA 15317

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of ANSYS INC. and subsidiaries for the period ended March 31, 2003, as indicated in our report dated April 28, 2003; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, is incorporated by reference in Registration Statement No. 333-08613 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP  
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Pittsburgh, Pennsylvania

## 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 changes; 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 is 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. This shift, therefore, 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.

**SEASONAL VARIATIONS:** The Company's business has experienced significant seasonality, including second and third quarter slowdown in software sales resulting from the purchasing and budgeting patterns of the Company's customers. Typically, the Company's revenue is lowest during the quarters ended June 30 and September 30.

**ECONOMIC SLOWDOWN IN CERTAIN MARKETS:** The Company's sales are based significantly on demand for products in its primary end markets. Many of these end markets, including automotive, aerospace and power generation, have recently experienced economic declines which have adversely affected our business. A continuation of this general economic decline may adversely affect our business by extending sales cycles and reducing revenue.

The current Severe Acute Respiratory Syndrome (SARS) outbreak has adversely impacted the Company's operations in certain Asian markets, particularly in China. To the extent this outbreak becomes more widespread, it could affect the Company's business in other global markets, resulting in an adverse impact on the Company's financial condition, results of operations and cash flows.

In addition, terrorist attacks and other increased global hostilities have contributed to widespread uncertainty and speculation in the world financial markets. This uncertainty and speculation may result in further economic contraction, resulting in the suspension or delay of purchasing by our customers.

**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 to respond quickly to industry changes, its business, financial condition, results of operations and cash flows 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 material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**DEPENDENCE ON DISTRIBUTORS:** The Company continues to distribute a substantial portion of its products through its global network of independent, regional channel partners. The channel partners sell the Company's software products to new and existing customers, expand installations within their existing customer base, offer consulting services and provide the first line of technical support. The channel partners have more immediate contact with most customers in their territories who use ANSYS software than does the Company. Consequently, the Company is highly dependent on the efforts of the channel partners. Difficulties in ongoing relationships with channel partners, 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 channel partner for any reason, including a channel partner's decision to sell competing products rather than the Company's products, could have a material adverse effect on the Company. Moreover, the Company's future success will depend substantially on the ability and willingness of its channel partners 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 channel partners 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 ABAQUS, Inc. (formerly Hibbitt, Karlsson and Sorensen, Inc.) The Company also faces competition from smaller vendors of specialized analysis applications in fields such as computational fluid dynamics. These vendors include Fluent, Inc. and Adapco, Inc. In addition, certain integrated CAD suppliers such as Parametric Technology Corporation, Electronic Data Systems 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, results of operations and cash flows.

**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 employment agreements with three executives, the loss of these employees, 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 of America. 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, results of operations and cash flows 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, results of operations and cash flows.

In November 2000, the United States enacted the FSC Repeal and Extraterritorial Income Exclusion Act (the "Act") in response to a challenge from the World Trade Organization ("WTO") that the existing tax benefits provided by foreign sales corporations were prohibited tax subsidies. The Act generally repeals the foreign sales corporation and implements an extraterritorial income ("ETI") tax benefit. Recently, the European Union stated that it did not believe the ETI provisions bring U.S. tax law into WTO-compliance and asked the WTO to rule on the matter. On August 30, 2002, the WTO ruled that the European Union may impose up to \$4 billion per year in retaliatory duties against U.S. exports. As a result, there may be further related changes to U.S. export tax law in connection with this ruling.

In April 2003, the Job Protection Act of 2003 (H.R. 1769) was introduced into the House of Representatives. The Act would repeal the ETI tax regime and replace it with a permanent rate deduction for companies with production activities in the US. In its current form, the Act provides general transition relief through 2008 based upon the 2001 ETI benefit. In fiscal year 2002, export benefits reduced the Company's effective tax rate by approximately 4.3%. Any prospective changes regarding tax benefits associated with the Company's export sales may adversely impact the Company's effective tax rate and decrease its net income in future periods.

**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:** Although the Company has historically maintained stable recurring revenue from the sale of monthly lease licenses and noncancellable annual leases for its software products, it has relied increasingly on sales of 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 represent a significant percentage of total software license revenue, the Company's revenue in any period will depend increasingly 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. In the future, the Company may not be able to identify suitable acquisition candidates or, if suitable candidates are identified, the Company may not be able to complete the business combination on commercially acceptable terms. Business acquisitions may result in devotion of significant management and financial resources. 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 material adverse effect on the Company's



business, financial condition, results of operations and cash flows.

**DISRUPTION OF OPERATIONS AT DEVELOPMENT FACILITIES:** A significant portion of the Company's software development personnel, source code and computer equipment is located at operating facilities in the United States, Canada and Europe. The occurrence of a natural disaster or other unforeseen catastrophe at any of these facilities could cause interruptions in the Company's operations, services and product development activities. These interruptions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**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. These proceedings currently include customary audit activities by various taxing authorities. 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.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:** The Company is exposed to certain market risks, primarily foreign currency exchange rates, which arise from transactions entered into in the normal course of business. The Company seeks to minimize these risks through its normal operating and financing activities. The Company does not use derivative financial instruments to hedge these risks.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ANSYS INC. (the "Company") on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Cashman III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James E. Cashman, III

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James E. Cashman, III  
President and Chief Executive Officer  
May 12, 2003

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ANSYS INC. (the "Company") on Form 10-Q for the quarter ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maria T. Shields, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Maria T. Shields

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Maria T. Shields  
Chief Financial Officer  
May 12, 2003